THE NATION

June 1-8, 1963 . . 35c

Fred J. Cook

The CORRUPT SOCIETY

A Journalist's Guide to The Profit Ethic

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LETTERS

Waste and want

Rice, Minn.

Dear Sirs: Lord Boyd-Orr once said: "I trust no government, not even my own." Can it be that we Americans could "do with," as the Scotchmen say, a bit of such skepticism as that expressed by Lord Boyd-Orr?

Some facts pointed out by newspaper columnist Richard Wilson, Defense Secretary Robert McNamara and U.S. Senator William Proxmire [see "Spendthrifts for Defense," by Senator Proxmire, *The Nation*, Aug. 25, 1962], among others point up the relevance of Lord Boyd-Orr's remark.

For example, Mr. Wilson, in his column under the caption: "Hasn't Anyone the Courage to Cut Government Waste?" cites the steady flow of U.S. General Accounting Office little blue books that tell the sad story of how hundreds of millions of taxpayers' dollars go down the drain. . . . Senator Proxmire tells of an instance of such Congressional recklessness with taxpayers' money. According to the Senator, an appropriation of roughly a half-billion dollars for bombing planes was passed by the Congress, although the President's budget did not include the item and Defense Secretary Robert McNamara said that the planes were not needed. . . . Secretary McNamara states that, "even if we were to double and triple our forces, we would not be able to destroy all of Russian hardened ICBM sites quickly and even if we could do that, we know no way to destroy their missile-launching submarines at the same time."

On a four-month tour of fourteen European countries, I found no such war hysteria as we have in this country. Is it possible that the concept of safety through nuclear megatonnage is being promoted by the military-industrial complex and should be viewed with a bit of Scotch skepticism?

Stewart Graves

Legal help needed

New York City

Dear Sirs: A little more than a year ago, the National Lawyers Guild, at its annual convention, established the Committee to Assist Southern Lawyers.

Our committee has been able to offer the legal services of a group of approximately eighty Northern lawyers to assist Southern lawyers in cases arising out of segregation. Assistance has been furnished without expense or fee. . . . Among other activities, the committee has published a practical handbook for use by civil-rights attorneys; organized an interracial legal conference at Atlanta; instituted a program for law students in the North to use their vacations to clerk in Southern law offices burdened with civil-rights litigation.

But we have barely scratched the surface of the need. Southern bar associations and Southern lawyers, with a very few honorable exceptions, have refused to undertake the effective representation of Negroes (and those whites who have aligned themselves with them) when they have become victims of segregation power. . . . Thus, almost 4,000,000 Negroes in Alabama, Georgia, Mississippi and South Carolina, where the need is greatest, can look (except for less than a handful of white lawyers) to only seventy-three lawyers for legal representation in their courageous struggle against the concentrated opposition of state and local power.

Even these figures don't plumb the depth of the problem. Not all of these seventy-three Negro lawyers are in a position to handle civil-rights cases. And others can handle only a few and still carry on their law practices. A lawyer who really fights for his client's rights not only risks a great deal in becoming (in the eyes of the white community) a party to conspiracy to destroy its way of life; but, in most cases, he must appeal from one court to the next for a chance of ultimate success.

Until the Southern bar takes up its professional responsibilities, there can be no possibility of equal justice for Southern Negroes. Meantime, it is the duty of the bar in the rest of the country to fill this gap temporarily. Public pronouncements concerning "justice under law" usually associated with Law Day will have a hollow sound until the American bar has met this challenge. *George W. Crockett, Jr., Ernest Goodman, Co-Chairmen*

Arab unity

San Francisco, Calif.

Dear Sirs: In re: "Syria: Test of Arab Unity [*The Nation*, May 4], the analytical method of observing facts always proves that there will be disunity and cleavages. No matter what the facts, analysis ends in severance. Dissection is death and growth is life and never the twain shall meet.

We, of course, don't read the European newspapers of 1776-1781. They proved logically and absolutely that the Protestants and Catholics could not unite, that the Marylanders and Virginians held little traffic with one another and long before some of our orators discovered it, "that a nation could not be half slave and half free." . . .

Protocol has written that Syrians and Egyptians must be separate and even if they have a common language, culture, inheritance and what not, never mind. . . . You can go on the streets in almost every city in the Near East and ask the people what they want (which is not done; protocol, you know) and so the universal acceptance of Nasser is not to be reported. . . . *Ahmed Murad*

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A Journalist's Guide To the Profit Ethic . . .

THE CORRUPT SOCIETY . . . . . Fred J. Cook

FOREWORD BY THE EDITORS

In civilized life, law floats in a sea of ethics. Each is indispensable to civilization. Without law, we should be at the mercy of the least scrupulous; without ethics, law could not exist.

—CHIEF JUSTICE EARL WARREN

This statement from a recent speech by the Chief Justice serves Fred J. Cook in this special issue as former President Eisenhower's reference to the "military-industrial complex" served him in writing "Juggernaut: The Warfare State." The two statements are alike in that they are diagnoses, by men at the apex of American society, of national conditions that have become endemic and are therefore not clearly seen. As before, Mr. Cook's purpose is to distill, from many sources over a considerable span of time, the documentation that lies behind the statement.

Justice Warren's point is a simple one—in other times it would have been taken for granted—and the widespread attention it has received is itself a measure of the dilemma defined. Law is written to protect society from the least scrupulous, but law depends on a consensus of the community, and that consensus is the ethic of the community. The evidence Mr. Cook places before his readers suggests very strongly that in large areas of American society today that ethic does not exist. In its absence, to continue Justice Warren's image, the law is "stranded on dry land." It cannot conceivably codify behavior so exhaustively as to cover all human relationships (and, if it could, the resulting state would be intolerably rigid). Worse, when the traditional ethic drains away, a new rule comes into play, namely: "if it isn't illegal, it is permissible." ("In the practice of my profession," to quote Mr. John A. O'Donnell, lobbyist for the Philippines war-claims bill who made campaign contributions to twenty Congressmen, "I am not permitted to dwell long on abstractions. In serving the best interests of my clients, I am compelled to do what is legally authorized.")

A variant of this argument is that in an organization it is perfectly proper to do what one is told to do: "I just work here" is an all-too-familiar alibi with ominous historical overtones.

The law cannot evoke an ethic that is nonexistent or irrelevant or obsolete. Knowing this, various groups, private and public, have gone about adopting "codes of ethics" which purport to give the individual a standard by which to measure his own honesty. It would be laughable, if it were not tragic.

Every pickpocket, every bank robber, every hijacker, knows that he has violated the law; but the members of Mr. Cook's cast—notably the corporate executives, public officials and others who would be regarded as "good guys" in the American vernacular—are not conscious of wrongdoing because the only code they recognize is the criminal code itself. Even if crimes have been committed in the stories Mr. Cook recounts —and crimes have been committed—the infraction of the law is typically only an incident in the greater violence done to what an earlier generation would have recognized as the ethical situation. But these groups and individuals do not acknowledge an ethical responsibility, and no society—let alone one as complex and interrelated as ours—can operate on the

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thesis that what is not expressly forbidden is tacitly permitted.

The examples Mr. Cook has selected are familiar; they were chosen, in most cases, because, for a brief day, they made headline "scandals." Many of them were extensively reported as scandals, but brought together here they tell a new story—a story of the lapsed sense of ethics, the loss of instinctive honesty that is a matter of tradition and not of law, that now pervades American life at all levels and over a wide range.

If the reader has any doubt about the representative character of the samples chosen, any thought that Mr. Cook is dealing with material too special to be significant, let him recall instances so recent that they could not be included in this issue: betting among the star players of the National Football League; the twenty members of Congress who accepted Mr. O'Donnell's contributions when they were in a position to influence legislation in which he had a vital interest; the manner in which the Playboy Club in New York obtained a liquor license. Recently *Playboy* ran a series of articles and held a colloquy on ethics in an affluent society. But hear its publisher, Mr. Hugh M. Hefner, on the question of why Playboy Clubs, his related enterprise, paid $50,000 to a member of the New York State Liquor Authority: "We paid not as an illicit enterprise to secure illegal or improper favors, but as honest operators trying to secure our legal rights. . . . The Playboy Club executives who were forced to pay for what they were already legally entitled to are no more guilty of 'conspiracy' than the parent who pays the kidnaper for the return of his child before calling the police. We had a $4,000,000 'baby' at stake." Or let the reader compile his own list from the headlines in his local paper. However prevalent an evil may be, it must be defined and its scope made clear before people can grasp its significance and move toward its elimination.

Mr. Cook is well known to *Nation* readers. Three of his special articles for this publication have won him important prizes. He is the author of ten books, the most recent of which, *The Warfare State*, was based on the special feature, "Juggernaut," which appeared in *The Nation*, October 28, 1961.—THE EDITORS.

PART I Dimensions of the Problem

"In civilized life, law floats in a sea of ethics. . . ." The speaker was Chief Justice Earl Warren of the United States Supreme Court; the occasion, the annual awards dinner of the Jewish Theological Seminary of America in New York on November 11, 1962; the theme, the condition of the social ethic in this mid-twentieth-century America—one of the most disturbing and dominant themes of our time.

Take, for example, the crowded calendar of a fairly typical day in our lives: Friday, July 6, 1962, just five months before Chief Justice Warren's memorable comment on contemporary mores.

In Washington, D.C., on this day, the McClellan Committee, probing into the antics of that whirling dervish of finance, Billy Sol Estes, heard evidence that two employees of the U.S. Department of Agriculture had solicited and accepted bribes. In both Washington and New York, one of the country's largest publishers was called to public account in connection with the "gimmicky" promotion of *Calories Don't Count*, a book referred to by a spokesman for the U.S. Food and Drug Administration as a concoction of "false and misleading statements." In Jersey City, police uncovered a second hoard of Joseph Vincent (Newsboy) Moriarity, a bookie who had been allowed to stay in business long enough to store away $2,421,850 in cash in old cars and abandoned garages. In Boston and New York, detectives were trying to unravel the disappearance of $100,000 that two businessmen had been lured into putting into a safe-deposit box by some get-rich-quick, gold-smuggling scheme. And in New York, again, both the Citizens Union and the City Club of New York were horrified at the prospect that Supreme Court Justice J. Vincent Keogh might collect his $20,000 annual pension even though he had just been convicted of taking a $22,500 bribe to fix a federal-court sentencing.

Note that every one of these cases involved aspects which have nothing to do with ordinary crime: the hold-up, the robbery, the burglary, the physical assault. The *Calories Don't Count* affair involved no crime at all. What makes them relevant to Chief Justice Warren's thesis are the kinds of people in the dramatis personae: law enforcers, a judge, respectable businessmen, a publisher, civil servants. Think now of Billy Sol Estes, a pillar of his church; of the solid citizens—officials of great corporations—who were caught in the electrical-equipment conspiracy case; of the teachers and lawyers involved in the TV quiz-show scandal; think of Father Raymond C. Baumhart's study of the ethical sensitivities of 1,700 business executives, of whom four out of seven stated that businessmen would violate a code of ethics whenever they thought they could get away with it, and four out of five affirmed the presence in their industry of practices which they regard as unethical.

The professional man, the civil servant, the corporation executive: are not these the people who, in large measure, are supposed to set standards for ethical conduct? And what kind of standards have they been setting?

July 6, 1962, provides only one day's answer. Multiply this day by a year of days, add to it the uncountable similar examples, on small and large scale, which for one reason or another never gain the light of publicity: is this what led Chief Justice Warren to ponder not on today's prevalence of crime, but on the scarcity of ethics?

Or was it, perhaps, the simple and sad story of Douglas William Johnson, janitor — a story that makes the same point, only in reverse?

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PART II Unexpected Rewards of Virtue

On March 10, 1961, Douglas William Johnson, a fifty-year-old Negro janitor in Los Angeles, a man who had felt the pinch of poverty, drove to an apartment house under construction to see if he could get the job of cleaning up the debris. With him was his wife, Helen, thirty-eight. The superintendent whom he had to see about the debris-cleaning chore wasn't at the site, and so Johnson climbed back into his station wagon and started home. He had driven only a short distance when he happened to see, lying in the street in front of his car, a bulky canvas bag. Thinking it might contain something useful, Johnson stopped, picked it up and tossed it into the back of the station wagon.

As he got behind the wheel and drove off, his wife, possessed by curiosity, turned around and began to examine the bag. It was sealed, but it bore a tag. The tag said that the bag contained $240,000 in $10 and $20 bills.

"Do you know what you've picked up?" Mrs. Johnson asked her husband. "There's $240,000 in that bag!"

"No!" he said—and started to shake all over.

Explaining his reaction later, Johnson told reporters: "I was knocked off my feet. I never dreamed I'd have my hands on anything like that."

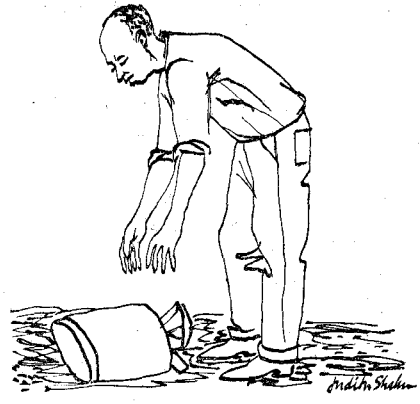
Here certainly was king-sized temptation. Bills of relatively small denominations are not easily traced, and Johnson—the part-time maintenance man, father of three sons—had $240,000 worth of those bills at his finger tips. What to do?

"I thought if I kept that money I'd never be able to look my three kids in the face again," Johnson explained, using the simplistic imagery of a bygone age when man had stature and was supposed to be responsible for his acts.

So Johnson acted according to the dictates of pure and simple honesty. As soon as he reached home, he telephoned a friend, a former Chicago policeman, to find out whom he should notify about the money; the friend advised him to call the FBI. He did. In minutes, four FBI agents were at his door, recovering the money bag that had fallen from the rear of a passing Brinks truck. The truck had traveled for some distance before the $240,000 loss was discovered, and scores of police and FBI agents had begun to search along the truck's route when Johnson telephoned that he had the missing money.

Sad Sequel

Brinks paid Johnson a $10,000 reward for his honesty, but this wasn't the end of the story. A little more than a month later, on April 21, 1961, the press of the nation recorded the sad and revealing sequel. Johnson's life had been made utterly miserable; the strictly honest deed that should have made him the most admired of men had



made him instead the most despised, ridiculed and harassed.

Crackpots wrote obscene letters to him, neighbors ridiculed him, fellow workers needled him, schoolmates taunted his sons. The universal theme was that Johnson had proven himself to be the world's greatest boob by returning that $240,000 once he had it in his hands. The taunts became too much for his oldest son, Richard, sixteen, who finally ran away from home, returning after a few days, hungry and disillusioned. "The kids kept saying things to me," he explained. "All the time, they were saying my father was dumb, and a fool and stupid. . . . I just couldn't stand it."

Johnson himself said it was "nice" that Brinks had given him a $10,000 reward, but he added:

"I can't leave the house to get work without someone throws it all up to me and calls me a fool. Can't be on the job without someone says, 'Why you need work? You had $240,000.' And now it's hurting my boys.

"I wish I'd never seen any of it. I wish we'd let that money sit in the street and rot. I wish we'd thrown it down a sewer or burned it.

"That money? It's not worth anything. It has made me a poor man."

This tragedy of the honest man, pilloried on the unfaith of a dishonest age, inspired novelist Nelson Algren to write Douglas Johnson a letter bitterly satirizing the reverse morality by which we live. This is the letter:

It is one thing to get caught doing something crooked, but the man who snitched on himself for doing something innocent, as you did in returning $240,000 in small bills to the Brinks Express Co., makes me wonder not only whether you are worthy of the name of an American, but even whether you can call yourself an honest janitor.

Where were you *when millions of Americans felt their blood pound with pride in Charles Van Doren, replying to reporters who asked him if he intended to give the money back, "No" — IN THUNDER!*

Where were you *when James C. Hagerty advised us on television that the moral of the U-2 incident was "Don't get caught"?*

I regret, for your sake as well as my own, that in this crisis you did not think along the same lines as Mr. Ike Williams, former lightweight champion of the world, thinks now. When congratulated recently by Mr. Estes Kefauver on having turned down a hundred-thousand-dollar bribe in return for throwing a fight and offered the hope, by Senator Kefauver, that in time he would be glad he resisted the temptation, Mr. Williams replied that he would regret turning it down the rest of his life.

I believe you have not only deprived yourself of a contented existence by returning money that belonged to you as much as to anybody else in the free world, but have struck at the very foundation of our society.

For shame, Mr. Johnson, for shame.

For shame, indeed. In a monied society, Douglas Johnson had committed the cardinal sin; acting on honest impulse, he had returned a fortune that he might have kept. In the contrast between his harrowing experience and the virtual indifference that greeted the tale of two bribe-takers in the Billy Sol Estes case, for instance, one finds a barometer that accurately gauges the shabbiness of our ethical standards.

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PART III Ethics of the Organization Man

In August, 1956, a Very Important Person ostensibly was enjoying a little vacation in the cool air of Camp Keystone at North Bay, a plush little island resort in the province of Ontario, Canada. The VIP had a comfortable cabin; the wind rustled in the trees; the water lapped gently against the shore. The surroundings were idyllic for a gentleman of means to take his ease and revivify himself by communing with nature.

But more than placid communing was taking place at Camp Keystone in this month of August. Down the road a piece, there was another cabin. Here a number of obviously Very Important Persons were gathered. For them, too, the soft breezes blew, the water gurgled along the shore, the cool night air and the cool drinks offered balm to the soul. But the men inside the cabin seemed impervious to such blessings. They were engaged in heated and earnest debate.

From time to time, one VIP would split apart from the group, leave Cabin No. 2 and trek up the road to that other cabin where the solitary vacationer communed with the great outdoors. The visitor usually arrived considerably out of breath, for the men in Cabin No. 2 had left their track and bellhop days far behind them. Between pants, however, the courier would inform the solitary one of the trend of discussions in Cabin No. 2.

Like an oriental potentate, Mr. Solitary would ponder for a moment upon the news his visitor had brought, then he would speak crisply and incisively, giving his own views on the matter. As soon as these had been uttered, his visitor would depart, scurrying up the road to Cabin No. 2 as swiftly as his shortened breath and unaccustomed legs would carry him. These strange and protracted maneuvers continued until finally a decision was reached between the solitary VIP in Cabin No. 1 and the gaggle of VIPs in Cabin No. 2. The result: consumers all over America were going to have to pay a hefty 10 per cent more for heavy electrical-control equipment.

The solitary sojourner in Cabin No. 1, according to some of the other participants in this strangely divided conference, ultimately dictated the decision. For his was the mightiest voice of all the voices at North Bay. He was General Electric Vice President W. F. Oswalt, general manager of mighty GE's industrial-control department. His fellow conspirators in the cabin down the road were representatives of the small, tight ring of electrical manufacturing companies that have a strangle hold on business across the length and breadth of the North American continent. The price decisions they reached in this clandestine conclave at North Bay would be accepted by the American consumer because the American consumer had no choice; this small group of men and their companies controlled the product.

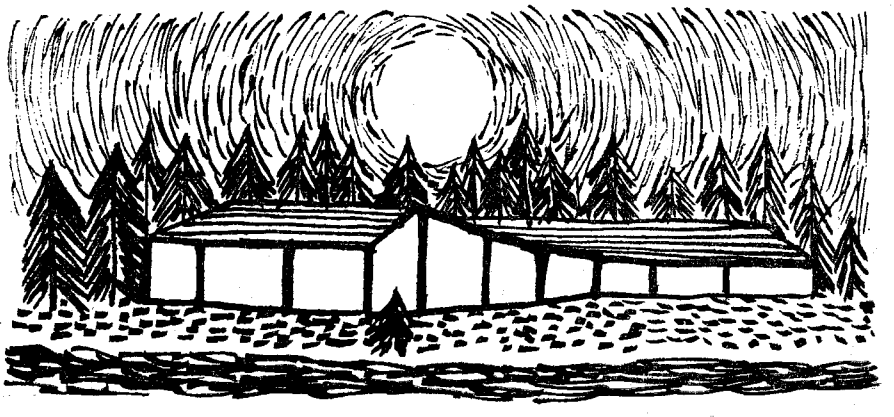
Not-So-Free Enterprise

But why, one might ask, had W. F. Oswalt, the real power figure in the group, remained aloof from the discussions in Cabin No. 2? Why had he been at such pains to participate only by Organization Man messenger and remote control? The answer was simple. General Electric, the corporate giant that dominates the electrical industry, is loud and voluble in its espousal of the free-enterprise system. It had made fierce noises in paper directives, admonishing its executives that they were not—no, never—to participate in such an anti-free-enterprise enterprise as price-rigging.

This note of hypocrisy implicit in the contrast between GE's pretensions and its actions seems like an appropriate motif on which to begin this account of one of the most colossal business conspiracies in American history—a conspiracy that made a mockery and a myth of free enterprise and that raised the most profound questions, still largely unrecognized and unanswered, about the bedrock ethics of the American system.

As the government was later to show, the rigging of prices and the manipulation of business and contracts were conducted with a conspiratorial guilt reminiscent of the gangsters who met at Apalachin. Distinguished executives in the $100,000-a-year bracket, with their Brooks Brothers suits and their suave Organization Man veneer, went running around the country, hiding their identities under code numbers and false names. General Electric was No. 1; Westinghouse, No. 2; Allis-Chalmers, No. 3. A telephone call from "Joe Number One" meant that the man from General Electric was on the wire.

Whenever possible, the conspirators used pay phones for price-rigging talks, since these are free from wire taps and calls from them cannot easily be traced. When written communications had to be exchanged, the data was typed on a plain sheet of paper, folded into a plain envelope and sent to the conspirators' homes, never to their business addresses where secretaries might open the communications and read more than was good for them. When the price-riggers had to get together for tête-à-têtes, they traveled to designated rendezvous and registered under assumed names so that later there would be no written record to connect them with the guilty mission. In the morning, if they breakfasted in a hotel dining room, they breakfasted alone, giving no evidence of contact with those other guests in Brooks Brothers suits with whom they had huddled the night before. Once back at their home offices,



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they jiggered their expense accounts, again to avoid the tell-tale written record—putting in vouchers for a trip to Pittsburgh, for instance, when actually they had been in Atlantic City.

Manipulating Prices

The rigging of the economy of an entire nation in a vast field like the electrical business naturally takes some doing, and the necessity was constantly arising to hold more and more of these Big Business Apalachins. Eight meetings were held in 1958, for example; thirty-five in 1959. During the course of a conspiracy that ran from 1951 through most of 1960, the swankest of hotels and motels, obscure bars and posh country clubs, came to know the furtive men in the conservative, pin-stripe suits: they conferred in a Milwaukee bar known as "Dirty Helen's"; at the magnificent Skytop in the Poconos; at the Traymore and Haddon Hall hotels in Atlantic City; at the Cherry Grove Inn near Haddonfield, N.J.; at the Barclay, Roosevelt and Statler hotels in New York; at the Penn Sherwood in Philadelphia; at the Homestead in Hot Springs; at the Treadway Inn in Rochester. The list goes on and on.

The result of these conspiracies, as the government later charged and the conspirators themselves admitted, was to allocate the heavy-electrical business of the country and jack up prices to unconscionable levels. In the field of power-switchgear assemblies, for example, it was determined exactly how much of the available market each firm was to get. Originally, General Electric was allotted 42 per cent of the business; Westinghouse, 38 per cent; Allis-Chalmers, 11 per cent, and I-T-E Circuit Breaker, 9 per cent. Subsequently, when other members of the conspiracy in other electrical lines wanted to extend their business into this particular field, it became necessary for General Electric and Westinghouse to cut back on their percentages of the overall business to make room for the newcomers.

When it came to setting prices, a couple of different devices were used. On more routine, run-of-the-mill items of equipment, all of the conspiring firms would submit bids identical to the last penny. This built a platform under prices on various items—not just for the particular bid involved, but for all other business as well—and the buyer had no choice but to take it or leave it. On larger items, like huge power turbines whose cost might run high into the millions of dollars, the conspirators would meet and decide which firm, according to the allotted business percentages, was due to get "position" on each one. The victor having been decided by the cartel, the price would then be determined. The lucky bidder would submit a figure just a little below the high plateau on which all of the other supposed contestants pegged their prices. This practice became known inside the conspiracy as "the phase of the moon." When the "phase of the moon" came right for a certain company, it harvested the plums of its dishonesty.

These plums were certainly luscious fruit. The secret cartel dictated the price on every item of electrical equipment from the ordinary light bulb and $2 insulator to the gigantic multi-million-dollar turbine generators. Prices on generators rose 50 per cent from 1951 to 1959—a period when wholesale prices of all commodities were rising only 5 per cent. In 1959 and 1960, the Senate Small Business Committee charged that Westinghouse had bilked the Navy by a 900 per cent overcharge for one type of gear assembly, while on another contract General Electric battened on prices 446 per cent too high. What the total booty came to, no one will probably ever know. Some of the companies involved are now engaged in the painful task of disgorging some of their ill-gotten millions; but almost certainly what they disgorge will be only a percentage of their overall rewards for flouting the law of the land. This much seems certain: by allocating business and rigging prices, they stuffed themselves on hundreds of millions of dollars in excess profits on a gross business of some $8 billion. And they acquired powers that are the antithesis of free enterprise—the power to allocate territories and apportion business, to banish competition, to crush any rash interlopers, to ban and keep off the market cheaper devices that might threaten the holdings and self-interest of members of the entrenched conspiracy.

It is hardly debatable that these are not supposed to be the purposes or the results of the system of free enterprise about which we brag to the world. Yet, curiously enough, such is the split personality of the businessman when discussing ideals on the one hand, profit on the other, that this system of conspiracy and cartel is precisely what these powerful businessmen meant when they talked about free enterprise. In their preoccupation with balance sheets, they saw no discrepancy between their deeds and their pretenses. Take this self-justifying quote from one of the leaders:

> *No one attending the gatherings was so stupid he didn't know the meetings were in violation of the law. But it is the only way a business can be run. It is free enterprise.*

The author of this classic definition was Fred F. Loock, president, general manager and sales manager of Allen-Bradley Company, of Milwaukee, Wis. Allen-Bradley is one of those firms that have thrown themselves heart, soul and bankroll into promulgating the doctrines of Dr. Fred C. Schwarz's rabble-rousing Christian Anti-Communist Crusade. (See "The Ultras," *The Nation*, June 30, 1962.) Similarly, General Electric, the industry leader, has energetically promoted hard-Right causes. To such firms and such men, wage increases sought by labor became inflationary moves destructive of our way of life; but obviously to them, there was nothing wrong or inflationary about the millions of dollars in excess profits they themselves were gouging out of the economy by devious conspiracy.

Organization Men

What are the men like who can flaunt such an unabashed double standard? What is the system like that breeds them?

They were all of them, virtually without exception, the perfect stereotypes of the Organization Man, and while they knew what they did was illegal (not to speak of unethical), while at times it nagged feebly at their consciences, not one had the backbone to pronounce an unequivocal "No." Price conspiracies had been the norm of the business long before they rose to positions of power, and as young men, scrambling hard up the ladder, they had come to accept such clandestine rigging as "the way of life." Good Organization Men all,

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they did not question too deeply, they did not fight too vigorously; they simply got into the swim of things and rigged as hard as the next fellow.

They were subsequently described in court—and, indeed, they sometimes described themselves—as Organization Men. Clarence E. Burke, fifty-five, a smallish man who stands about 5 feet 6 and has delicate-looking hands, played the "team" game and rose to be general manager of GE's High Voltage Department at a salary of $70,000 a year. Before the Kefauver Committee, he described GE as "the company I loved," and he gave this analysis of himself:

> *I guess I am an Organization Man. I felt I had to go along with the price-fixing scheme or I couldn't get promoted in the company. I always felt guilty about it, yes, but I felt I had to go along.*

The pattern, the underlying motivations, emerged clearly in a series of interviews some of the guilty high executives, under a pledge of anonymity, gave to *The Wall Street Journal*. One of the defendants, a most vigorous defender of "the system," put into perfect and succinct focus Chief Justice Warren's issue of ethics versus the law. "One of the problems of business is what is normal practice, not what is the law," he said. "If it's normal practice, it's ethical—not legal, but ethical."

Bolstered by his own brand of ethics, this executive, even in the aftermath, felt no sense of guilt. His only reservation was that the conspiracy, once embarked upon, had gone too far; it was "wrong to allocate business," he felt, but he still found nothing wrong about rigging prices because "the customer buys total value in which price is only one significant factor."

This man seemed not to consider that a cartel able to set its own prices would hardly be ungenerous with itself or that a cartel, flaunting such make-or-break powers, also ultimately would determine questions of quality and product. The inevitable raw deal for consumer and public—and the whole economy of the nation—obviously was no factor with this executive who defended the corporate ethic against the law.

Some of his colleagues were more sensitive to the implications of their deeds, but even the most sensitive maintained that the individual was helpless to resist the mass pressures of their corporate god and the entire electrical industry. One man, for example, drifted almost by accident into the price-rigging cabal. Originally, he had kept records for his company on competitive bids, and had become "amazed at how close together the sums were." Later, his superiors let him in on the secret and introduced him to competitors with whom he was to fix prices. Much disturbed, he finally worked up the courage to broach the matter to his boss. "The boss readily admitted there had been meetings to stabilize prices," he said. "But he said my predecessor had gone too far, and he didn't want me to go so far."

This worried executive was indecisive about the course he should follow. "When I was first convinced this was going on, I thought it was very wrong," he said. "I thought of going to them and saying I didn't want the job. But by that time I had been doing the job for some weeks. And then I didn't know whether I was just being naive. I thought maybe this was the normal thing."

A third executive explained that he came into the business as a young man possessed of a blind corporate faith. It never occurred to him to question the ethics of his own company; he never thought about the illegality of price-rigging because, obviously, whatever the company did must be right. He was curious only to know the reasons for it, and these were explained to him.

> *It was pointed out to me that this is the only way to run a heavy electrical-goods business* [he explained]. *This is the way of life. It was necessary, or so I thought, to prevent a chaotic market. There was a well-known high executive who had been fixing prices for years — it was latrine knowledge.*
>
> *These people above me were damn fine citizens and I had developed quite a respect for them. Why should I question them?*

When he grew up to the status of price-rigger himself, he was proud. "I'd seen others doing it, and now they were entrusting it to me," he says. "Keeping the market stable—that was a big task." When he began to meet with competitors, he explained to his wife that there was "a certain risk involved" and "she accepted it as part of my job." It was the necessary route to promotion and prosperity. But, in time, the shady devices to which the fixers had to resort began to humiliate and worry him.

"I'd be making phone calls from phone booths," he said, "and I'd get unsigned letters in the mails. There'd be calls for me at home." Sometimes the whole disreputable practice threw him into a blue funk. Then—"I'd get up at three in the morning and go downstairs and get a drink. I'd have to think things over."

With all his thinking, though, he never asked for a showdown. He never worked up the courage to go over the heads of his immediate superiors to headquarters, which in its directives was proclaiming a no-price-fixing policy. He explained:

> *The tendency is for executives, who get stock options, big salaries, pensions and so on, to accept the facts of life going on around them. It is very hard to quit when you get a big compensation, and it's also tough to be a nonconformist under such conditions.*

GE's Mr. Burke

This, then, was the atmosphere prevailing in the world of the Organization Man. How it worked out in detail in the career of one man and one company is perhaps best capsuled in the story of smallish, dedicated Clarence Burke and the one company above all others that mattered—powerful General Electric.

Burke went into the heavy-equipment division of GE in 1926, fresh out of the Georgia Institute of Technology with a B.S. degree in electrical engineering. The heavy-equipment division was the oldest and most important of GE's branches, the foundation stone on which the whole sprawling corporate structure had been built; it accounted for 25 per cent of sales. Burke rose through the ranks and by June 1, 1945, when he was transferred to Pittsfield, Mass., as sales manager of distribution transformers, he was tabbed as a rising young executive of great promise.

Hardly had he become established in Pittsfield when he became involved in the preliminary collusion that was to lead ultimately to price-rigging. Those were the closing days of World War II, days in which the much-hated Office of Price Administration presumed to

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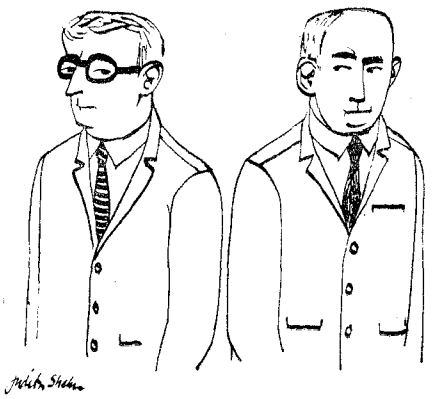
tell businessmen what they could charge for their products. Business was intensely unhappy about such governmental interference with the pure competitive laws of the free-enterprise system, and it was determined to get rid of OPA just as soon as it could. In the meantime, it had to live with this odious and un-American bureau. And so Burke's boss, H. L. (Buster) Brown, called him in and told him to attend a meeting of the National Electrical Manufacturers Association in the Penn-Sheraton Hotel. After the regular session, he was to meet with competitors and discuss how the industry could best unite in pressuring Washington to jack up OPA ceiling prices.

This, for Burke, was the beginning. Big business and a propagandistic press soon decapitated OPA, despite the prevalence of shortages. But did the disappearance of OPA restore the competition of the free-enterprise system? Did it put an end to price-fixing? It did not. All it did was to remove the restraining hand of government in price-fixing and invest virtually the same power in the very hands that stood to profit by gouging the most out of the market.

The price-fixing discussions in which Burke had become enmeshed went merrily on. General Electric, under its guiding genius of the period, Charles E. Wilson, had issued a directive forbidding such collusion, but Buster Brown assured his boys that this guide line, issued in fear of antitrust prosecution, didn't apply to the kind of thing *they* were doing. He "assured us," Burke subsequently told *Fortune*, "that Antitrust would have to say we *gouged* the people to say we were doing anything illegal. We understood this was what the company wanted us to do."

In 1946, GE's lawyers became concerned because the federal government was making antitrust noises, and they made a tour of the individual plants, putting everyone on notice. There were to be absolutely no more discussions with competitors on prices, whether the public was gouged or not. In GE parlance, this period of enforced withdrawal from the price-rigging conspiracy became known as "going behind the iron curtain"; but even when curtained, the corporate shut-ins were not left entirely in the dark. Their understanding



competitors thoughtfully telephoned them the details of their price agreements, and so, in effect, the price conspiracy operated much as before. Then, after a period of nine months, the curtain was lifted:

> *Word came down to start contacting competitors again* [Burke recalled]. *It came to me from my superior, Buster Brown, but my impression was that it came to him from higher up. . . . That is when the hotel meetings got started.*

'One Over One'

One difficulty in determining just where such abrupt and mysterious shifts of policy originated—and, incidentally, an invaluable protective device, isolating top executives like Charles E. Wilson and GE's present man of power, Ralph Cordiner—was the corporation's rigid "one over one" hierarchy. Each executive had direct contact only with the man immediately above him on the ladder; he never jumped up three or four rungs to discuss a vital problem with the executive who had to decide it. Every recommendation went up and every order came down through the rigid "one over one" chain of command. As a consequence, what a man knew about policy depended upon what his immediate boss told him; he could only assume that his boss had *his* orders from his immediate superior and so on, all the way to the very top. But he had—and this was to become vital later—no direct and positive evidence of how much the top knew or didn't know, how much it did or didn't approve.

This was a fine distinction that didn't trouble Burke at the moment, for he had no qualms, no doubts but that he was carrying out company policy set on high no matter what paper directives might say. Not even the accession of Cordiner to the control of GE in 1950 greatly shook his faith in the necessary two-facedness of GE policy. Cordiner had a reputation of being an advocate of the school of free and unrestricted competition, and one of his first acts as president was to read all the junior executives a riot act about the antitrust laws and the evils of price-rigging. The words sounded good, but the reality remained unchanged. The overt policy of GE was one thing; its *sub rosa* policy was evidently the very opposite, for the price-riggers rigged happily away. In fact, Burke got his next promotion because the simpleton who had held the office before him took the Cordiner admonitions seriously and refused to rig any longer.

Corporate Hypocrisy

In September, 1951, Burke was boosted into the post of manager of all switchgear marketing, including circuit breakers (the industrial version of the house fuse, devices sometimes 40 feet long, 26 feet high and weighing 85 tons, designed to cut off the flow of electricity when it reaches a dangerous voltage). He was interviewed for his new position by Robert Tinnerholm, who left him with a very definite impression as to how it had all come about:

> *I was to replace a man who took a strictly religious view of it* [price-rigging]; *who, because he had signed this slip of paper* [*the GE no-rigging directive*] *wouldn't contact competitors or talk to them — even when they came to his home. . . . They knew I was adept at this sort of thing. I was glad to get the promotion. I had no objections.*

Burke's new boss in the switchgear division was Henry V. Erben, an important man in the GE hierarchy—executive vice president, apparatus group, which meant he was the No. 3 man in all GE.

> *He was saying then* [Burke recalled] *that he had talked to Cordiner about this policy, that Cordiner was not pleased with it* [*the idea of getting together with competitors*], *but that he, Erben, had said he would do it in a way that would not get the company into trouble. And I'd been told by others that Erben had said things like this earlier. . . .*

This was as clear an expression of the prevailing wind on the rarified summit of GE as any executive could expect to get under the "one over one" remote-control system. Burke was satisfied, and he was

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soon meeting with the marketing executives of Westinghouse, Allis-Chalmers and Federal Pacific. He also, under Erben's instructions, indoctrinated men under him into the intricacies of price-fixing:

Erben's theory was to live and let live, contact the competitors. He gave us that theory at every opportunity and we took it down to other levels and had no trouble getting the most innocent persons to go along. Mr. Erben thought it was all right, and if they didn't want to do it, they knew we would replace them. Not replace them for that reason, of course. We would have said the man isn't broad *enough for this job, he hasn't grown into it yet.*

The hypocrisy of big corporations runs like a thread through the entire story of the price-rigging conspiracy, but nowhere is it made more evident than in Burke's testimony. There is only one compensating thought. The Organization Man sometimes earns the ulcers he deserves. The pressure is upon him to produce ever more business and ever greater profits. "All we got from Lexington Avenue," Burke recalls, "was 'get your percentage of available business up, the General Electric Co. is slipping.'"

'Stretching Men'

Cordiner is admittedly a hard driver. His "asset is stretching men," one GE executive has remarked. If a man's performance didn't come up to the mark set for him, he was finished—and he knew it. All along the chain of command, under this kind of inflexible driving, the pressures became so intense as to be almost unbearable. Executives, faced with the incessant demands for ever more profits, felt that there was only one way to reach the profit goal and save their own hides—to meet with competitors and jack up the prices the public had to pay.

Clarence Burke put it this way:

We did feel that this [price-rigging] *was the only way to reach part of our goals as managers. Each year we had to budget for more profit as a per cent of net sales, as well as for a larger percentage of available business. My boss, George Burens, wouldn't approve a budget unless it was a "reach" budget. We couldn't accomplish a greater per cent of net profit to sales without getting together with competitors. Part of the pressure was the will to get ahead and the desire to have the good will of the man above you. He had only to get the approval of the man above* him *to replace you, and if you wouldn't cooperate he could find lots of other faults to use to get you out.*

One of Burke's biggest worries involved a simple question of honor. There is an old saying that there is honor among thieves; certainly there is very little among corporate price-riggers. They could all get together and reach solid price agreements in defiance of the law of the land, American free-enterprise philosophy and the stated policies of their own companies; but the trouble was to get everybody to keep his word. These were all gentlemen, of course—and high-salaried ones. But almost every time one turned around, it seemed, some blackguard in the group was yielding to temptation and snatching a luscious contract by trimming a few percentage points off the agreed price. The throat-cutting among the corporate gentlemen got so bad that by May, 1953, Clarence Burke, by now promoted to general manager of high voltage, one of GE's three new switchgear departments, decided to get out. Through the rest of 1953 and 1954, GE boycotted the price-rigging cartel.

But things were getting tough. The year 1954 was a bad one for business. Sales slumped for the first time during the Cordiner regime, dropping nearly $176 million. Worse, profits as a per cent of sales remained well below the 8 per cent figure established by Charlie Wilson in 1950. The reflection on Cordiner and his right-hand man, Robert Paxton, then executive vice president for industrial products, was obvious. The heat was put on again.

How fierce and overwhelming was the pressure is best illustrated by what happened to Burke's overall boss, George E. Burens. Burens, like Burke, was fifty-five, but he was cast in a mold far different from the usual GE executive. Unlike most, he was not a product of the Ivy League, but of the wrong side of the tracks. He had grown up in a relatively poor neighborhood on Cleveland's East Side, and he had quit junior high school at sixteen to join GE as a laborer in the lamp-development laboratory. He had become a foreman, then a clerk, had battled his way slowly up the chain of command and had arrived finally at the $127,000-a-year eminence of GE vice president and general manager of its switchgear and control division. Of all the price-riggers, Burens alone retained his stature as a man; he was a rough, tough, independent fighter who hated the very idea of price-fixing and was dedicated to the belief that the way to run a business was to go out and battle the competition in a war of quality and price.

Yet it was Burens, in midsummer of 1955, who called Burke into his office and told him they were going to have to resume meetings with competitors.

Burens didn't tell Burke where the orders came from, but W. V. O'Brien, who filled in for Burens while the latter was vacationing in Europe, later told him that Paxton (soon to become president of GE when Cordiner moved up to chairman of the board) had ordered all hands to "stabilize" prices. This was the suave, Organization Man's word for price-rigging. Paxton has insisted since that he was the most misunderstood of men, that he never authorized nor had any knowledge of such dreadful deeds, and that whatever his boys did they did on their own in absolute violation of company policy. Be this as it may, the prevailing idea in GE—and it is amazing how virtually every executive in every division had it—was that it was the wish of the corporate monster to rig again. And so rig they did.

Breaking the Agreement

For a time the pressure on prices, which had tumbled as much as 40 to 45 per cent off book, was eased, and everybody was happy. But it seemed it was impossible to run a gentlemanly conspiracy among gentlemen without one of the so-and-sos disgracing himself by falling out of a padded leather chair at the Union League Club. In this instance the culprit was Westinghouse. One of its executives broke the gentlemen's agreement by offering Florida Power & Light Co. a concealed discount;General Electric got wind of the deal and matched the price. Soon the throat-cutting was cosmic, and prices were being slashed as much as 60 per cent off book.

There was, naturally, the very devil to pay. The lush profit world to which the electrical giants had become accustomed was taking an unholy beating, and there was, it

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seemed, just one way to stop it—to get back into the price-rigging game and to try to make certain this time that every gentleman in the jungle behaved like one. Only George Burens disagreed. He had hated price-fixing from the beginning; he had tried it only under orders, only because he had to, and now at the prospect of starting the practice all over again, he bucked like an angry steer.

He had the support of his departmental general managers—Burke, H. F. Hentschel and Frank Stehlik—all of whom were disillusioned about price-rigging. But it seemed almost as if these four formed a small island of dissidents in the great ocean of GE divisions. Everybody else wanted to get those prices and profit margins up, and there was a whole series of angry explosions before Burens was finally bludgeoned into line.

The first of these brutal tugs of war came in early summer, 1958, when Burens attended a dinner for all apparatus-division managers in New York. Arthur F. Vinson, group manager and executive vice president, the new and powerful No. 3 man in GE, presided over the affair and kept significantly silent during what turned into a "Beat Burens" free-for-all. The other division managers, incensed at Burens because, as long as he continued the price war, it was difficult for them to rig, ganged up on him. They accused him of wanting everything his own way, of not being "nice" to his competitors, of keeping up a competition that was driving prices down all along the line. Why couldn't he be "nice"? Why couldn't he "stabilize" a little? Vinson (who was later to deny all knowledge of price-rigging) sat through it all and only he knows what he could have thought the boys were talking about.

Burens went back to his headquarters in Philadelphia, furious about the gang-up to which he had been subjected; his black mood had much to do with what followed. The annual business review meeting of all the big and medium GE brass was coming up shortly at the Philadelphia Country Club on July 30 and 31, 1958. Vinson and Paxton, now president of GE, represented top management, and Burens, as the ranking GE executive in the Philadelphia area, was host at the kickoff dinner that turned into an affair no one present ever forgot. The fullest account of this has been given in *The Gentlemen Conspirators* by John G. Fuller (Grove Press). According to Fuller, who interviewed a number of the participants, the trouble began during the cocktail hour when Burens committed an indiscretion no Organization Man should ever commit: he locked horns with Paxton, the president.

Crisis over Policy

A general discussion of prices and policy touched off the fireworks. Burens, still smarting from the "Beat Burens" session in New York, argued fiercely that the only way to run a business was to keep quality up, get costs down to rock bottom and price your product at just a fair margin above costs. Then your price level would be genuine, while under rigging prices were pegged at a level where there was so much fat on the bone somebody was always tempted to trim a little because he could still make a mint on a large contract. Burke vowed later that he heard Paxton reply: "But that doesn't get you optimum prices."

The debate didn't end with the cocktails. It continued right through the dinner hour, and it got rougher as it went along. Stehlik, one of Burens' managers, said later that Paxton kept criticizing Burens' outlook, kept telling him he was a factory man who didn't understand marketing, kept arguing that prices had to be higher and discounting from "book" by one division was bad because it undercut all prices. Stehlik got the impression that Paxton didn't like anything about the way Burens was running his division. The heatedness of the clash stilled any merriment at the dining table. In this hush, Stehlik heard Burens growl: "I guess I'll be fired tomorrow." And Paxton icily told him: "Perhaps you will."

At the other end of the table, Hentschel, the third of Burens' managers, was sitting beside Executive Vice President Vinson. Vinson was paying close attention to the head-knocking at the head of the table, and at its peak, Hentschel later recounted, Vinson turned to him and remarked: "That's the way we lose vice presidents."

Paxton's explanation of all this afterwards was that Burens got drunk and abusive. "He was drinking Scotch and ginger ale," Paxton said with a shudder, adding that he thought this "a pretty poisonous mixture." All that had happened, he insisted, was that he had discussed price strategy in very general terms, and suddenly Burens became abusive. It was very distressing, but Paxton, a charitable man, had decided to forgive Burens.

Burens' own version is that the discussion developed just the way Burke, Stehlik and Hentschel said they heard it. After the dinner, he insisted, he saw Vinson privately and told him he was resigning; he was through with GE. Vinson placated him, urging him not to do anything rash, advised him to go home and sleep on it overnight. The next day, Paxton himself told him to forget the whole business, to wipe it completely out of his mind as if it had never happened. Burens was still stubbornly bent on resigning, but again Vinson, the peacemaker, argued him out of his intention and persuaded him to stay. It was for Burens a fateful decision; only by resigning could he have avoided the trap that now closed on him.

Mysterious Lunch

The jaws of the trap snapped shut, according to everybody but Arthur Vinson, at what must certainly be judged one of the most mysterious luncheons ever held in an executive suite. According to Burens, Burke, Hentschel and Stehlik, this event took place sometime after the Philadelphia Country Club confrontation, probably between August 1 and September 13, 1958. They all insist that, on a day during this period—a day they cannot now pinpoint—Arthur Vinson came to Philadelphia, had lunch with them in Dining Room B, told them he had fixed up everything with Westinghouse, and ordered them to begin rigging again. According to Arthur Vinson, it never happened; he wasn't even in Philadelphia during this period.

Clarence Burke's recollection is explicit. He was in his office when he got a telephone call to join Vinson and Burens in Burens' office. There Burens asked him to tell Vinson about his experiences in price-rigging. Burke did. He told the No. 3 man in GE, he says, that it never worked, somebody was always double-crossing GE by cutting "book" prices, and one of the worst offenders had been Westinghouse. "Well, that confirms what I've been

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telling you boys," Burens remarked to Vinson. But Vinson would not be put off. "I know it will work," he said. He added that he had a guarantee from Westinghouse, that Westinghouse admitted they had been bad boys in the past, but "they have learned their lesson." Westinghouse, he said, was "more interested in making a profit than they are in regaining leadership, and they promised me it will work."

Burens still demurred. According to Burke, Vinson got red in the face and said: "Well, it's got to be done."

On this note, they left Burens' office and went to Dining Room B to join Stehlik and Hentschel. This was an executive dining room, but on this day it was blocked off, reserved for this one exclusive group of five executives—a very rare occurrence. According to Burke, Stehlik was considered a problem child in the organization because he had never rigged and was obstinate about starting; for this reason among others, Burke wanted Stehlik to get the word about what had to be done directly from Vinson himself. Vinson, however, with everybody present, seemed to prefer to talk in generalities.

All during lunch we talked about price stability [Burke told *Fortune*] *and I tried to get Art to say the same thing he had in Burens' office, but he wouldn't volunteer anything. Finally, I said, "Art, these competitors of ours have been calling us up recently." He looked at me as if he could have hit me, and Burens said quickly, "Yes, Art, what do you think we ought to do?" Vinson said we ought to talk to them, but he said don't let it get below the general manager's level.*

This was the decision that set off another price-rigging spiral that lasted for two more years until the federal government finally stepped in. What it did to some of the men who insisted they hadn't wanted to go along is perhaps best illustrated in the changed man that Clarence Burke became. Pressure, the unrelenting pressure to rig, to produce ever greater profit, created some profound changes in him. "He used to be a hail fellow well met," a colleague subsequently told *Fortune*, "until he was put under that great pressure for profits. Then he simply shrank into himself; everything got to be cold turkey with him—without any warmth at all."

While Clarence Burke "shrank into himself," the price-rigging went into its final, frantic cycle, building up to the inevitable explosion. The fuse was lit by reporter Julian Granger of the *Knoxville News-Sentinel*, who wrote a series of articles revealing dramatic evidence of price-rigging by U. S. firms bidding for Tennessee Valley Authority contracts. Senator Estes Kefauver took to the trail; and the U. S. Attorney General's office, with disclosures piling up on all sides, went furiously to work. In Philadelphia, grand juries began to sit in the case, and once the probe was started, evidence piled up in mountains of voluminous detail. Working for the government was the basic fact that the conspiracy had been too vast and too long-enduring for perfect secrecy. Too many persons had intimate knowledge of its details, and not all of them were going to risk perjury indictments for the cause. Some began to talk; once the word got around that they had talked, others talked; and the entire probe quickly snowballed to the point where several grand juries were in session simultaneously.

Injured Innocents

On Feb. 16, 1960, the grand juries began to grind out indictments. Before they finished, twenty-nine companies and forty-five executives had been haled before the bar of justice in the biggest criminal case ever developed under the Sherman Antitrust Act. At first the defendant corporations were truculent, injured innocents. Their lawyers righteously demanded bills of particulars from federal prosecutors—and got them. The bills were so detailed, so specific, that they spread on the record vital facts about the conspiracy that otherwise might have remained secret; they were so convincing that even the highest-priced corporation lawyers in the nation could see no way out except to "cop" pleas.

They tried first to get the government to accept *nolo contendere* pleas, a weasel-worded legal device that means "maybe we did, maybe we didn't, but we won't bother to fight it if you say so." Robert A. Bicks, the hard-driving boss of the antitrust section in the Attorney General's office, was adamant against any such compromise, and Attorney General William Rogers, his boss, took the virtually unprecedented step of filing a personal brief with the court, insisting on outright guilty pleas in all of the major cases. Judge J. Cullen Ganey, the presiding federal jurist, listened to the arguments and then gave the individual and corporate defendants this choice: plead guilty or go to trial. They pleaded guilty.

The next question that arose was: What would happen to the defendants? Judge Ganey, known as a fair and compassionate jurist, wouldn't send any of those distinguished, $100,000-a-year executives to jail just like common criminals, would he?

Final Judgment

The answer was given in Philadelphia Federal Court on Monday, February 6, 1961, a cold and snowy day. No more suave and distinguished group of defendants probably had ever appeared before the bar. They looked like what they were—the well-groomed masters of the executive suite, their shoes mirror-shined, their conservative Brooks Brothers suits flawlessly creased. Judge Ganey looked down sternly from the bench, and almost with his first words, the chill in the courtroom matched the chill outside.

This is a shocking indictment of a vast section of our economy, for what is really at stake here is the survival of the kind of economy under which this country has grown great, the free-enterprise system. These men and these corporations have flagrantly mocked the image of the economic system . . . and destroyed the model which we offer as a free-world alternative to state control and eventual dictatorship.

Judge Ganey conceded that the government had not been able to develop enough positive evidence to convict the men at the very top of the corporate power structure, the Cordiners and the Paxtons, but he added:

. . . In a broader sense, they bear a grave responsibility for the present situation, for one would be most naive indeed to believe that these violations of the law, so long persisted in, affecting so large a segment of the industry and, finally, involving so many millions upon millions of dollars, were facts unknown to those responsible for the conduct of the corporation. . . .

Accordingly, he said, the corporations would be subject to heavy fines.

Turning to the individuals, the judge stared at them silently for a

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moment out of cold blue eyes. He was convinced, he said,

. . . that in the great number of these defendant cases, they were torn between conscience and an approved corporate policy, with the rewarding objectives of promotion, comfortable security and large salaries — in short, the organization or company man, the conformist, who goes along with his superiors and finds balm for his conscience in additional comforts and the security of his place in the corporate setup.

This might explain their misdeeds, but it did not exculpate. Those "with ultimate responsibility for corporate conduct, among those indicted," were going to jail.

The words quickly assumed a personal impact when the first defendant was called for sentencing. He was John H. Chiles, fifty-seven, a small man with gold-rimmed glasses, a vice president and division manager of Westinghouse, a Senior Warden of St. John's Episcopal Church in Sharon, Pa. His lawyer pleaded that "no further punishment is necessary to keep these men from doing what they have done. They are not grasping, greedy, cutthroat competitors. They devote much time to their communities. My client is not only Senior Warden of his church, he is vice president of his United Fund Drive. He is the benefactor of charities for crippled children and cancer victims. He is a fellow of a distinguished engineering society."

Judge Ganey looked down and pronounced sentence—thirty days in the Montgomery County Jail.

They Didn't Say 'No'

The other defense attorneys fought desperately to spare their clients similar fates. Three GE executives were among the principal defendants—George E. Burens, who had fought so hard against rigging; Lewis J. Burger, forty-eight, the man who had succeeded him in charge of the Philadelphia office before the scandal broke; and William S. Ginn, forty-five, a $135,000-a-year vice president of GE and long considered to be heir to Cordiner's mantle. In arguing for clemency for the three, their attorney put the blame on GE:

There is such a thing as business compulsion, as corporate coercion, and this, sir, does not require some superior official coming in and saying, "I direct you to do thus and so." There is such a thing as atmosphere, there is such a thing as knowing acquiescence in a situation.

Judge Ganey singled out one of the defendants, pointed out that he was high in the hierarchy, the manager of a powerful division. "Did he have any degree of judgment in the doing of the things which he must have known were wrong?"

The defense attorney replied:

True enough, I suppose he could have said, "No, I will not participate in this." But then I think that belies the corporate reality which does exist in America today. . . . In my submission, he would not have been able to continue his job in the company.

Here Robert Bicks, the chief government prosecutor, interrupted:

Your honor, we are unable to answer what would have happened had any of these men decided definitely to live within the law and fight it out with their superiors because, to the best of our knowledge, none of the men in this case tried to or did.

At this point, the General Electric attorney jumped up to say that he could not let the suggestion stand "that the conduct was compelled and directed." GE was "distressed," he said, that its explicit regulation against violating the antitrust laws had been disobeyed by the defendants. Judge Ganey commented dryly that it seemed GE policy "was honored in its breach rather than its observance."

Burens, Burger, Ginn all drew thirty-day sentences. They were soon joined by C. I. Mauntel, sixty, Westinghouse division sales manager; John Marvin Cook, vice president of Cutler-Hammer; and Edwin R. Jung, sales vice president of Clark Controller.

It took Judge Ganey two full working days to impose all the fines and sentences. When at last it was over, the twenty-nine guilty corporations had been fined $1,787,000, seven of their executives had been sent to jail, and forty-four of their executives had been fined $137,500. Twenty-one received suspended prison terms and were placed on probation for five years. Among the corporations, the penalties fell heaviest on GE and Westinghouse. GE was fined $437,500; Westinghouse, $372,500.

Far stiffer sentences are meted out daily for relatively picayune offenses. In one typical Asbury Park, N. J., case this past summer, a man who stole a $2.98 pair of sunglasses and a $1 box of soap was packed off to jail for four months. Contrasted with such sentences, the men in Brooks Brothers suits who literally filched millions out of the pockets of the American consumers and taxpayers escaped with little more than a slap on the wrists.

End of the Trail

And the men at the top escaped without even this.

At one point during the prosecution, the government had believed it could carry the war into the rarified inner sanctum of GE. Burens, Burke, Stehlik and Hentschel had testified before a federal grand jury about that luncheon in Dining Room B at which, they said, Arthur Vinson had told them explicitly that they must rig. The grand jury had indicted Vinson. This indictment implicated the powerful No. 3 man in GE; the man who was the direct link to Paxton and Cordiner; and if it stood up, there was no telling where the trail might lead.

But the indictment did not stand up. Vinson bluntly challenged it and forced the government to back down. He produced records from the Philadelphia office to show that there were only eight days in the critical August-September period of 1958 when Burens, Burke, Stehlik and Hentschel could all have been present for a luncheon in Dining Room B. Then Vinson, from his New York office, produced written memoranda and records to indicate that he had been in New York those eight days, establishing an alibi. The government, it seems, had goofed in the pre-indictment period by relying solely on the testimony of the four GE executives and not trying to corroborate it with written records in the Philadelphia office. Now, when such records were sought, either they weren't to be had or they showed nothing.

Burens, Burke, Stehlik and Hentschel (who by this time had all been fired by a righteous GE) all sought to get their day-by-day letter books to establish the date of the luncheon, but their own former employees told them regretfully that the books just could not be found. Books for prior years and subsequent years, yes; but not those vital books for 1958. When the four men tried to get the records for Dining Room B to see who had signed for the luncheon check, they

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were told that there were no records of any such luncheon. When the FBI finally managed to subpoena chauffeurs' records to see if a company car had picked up Vinson, the records showed nothing that would substantiate the Vinson visit. Burens, Burke, Stehlik and Hentschel all went to Washington and took an FBI lie-detector test on the story they had told about the Vinson luncheon in Dining Room B; they all passed the test with flying colors, a performance that convinced government attorneys they had told the truth. Vinson refused to take such a test; he was content to rely on the written-record alibi he had established. And this in the end won the battle for him. The government dropped the indictment, halting its probe at the very door of the throne room of GE.

It was an outcome that left the corporate summit legally unscarred. Ironically, in an action whose timing could not have been more propitious, the National Association of Manufacturers was proclaiming Ralph Cordiner as its Man of the Year even as sentences were being passed on lesser GE executives in Philadelphia. In full-page advertisements, GE proclaimed the news and quoted its happy Chairman of the Board on the virtues of free enterprise.

Back to Normal

On April 8, 1961, three months after Judge Ganey's strictures in Philadelphia Federal Court and the imposition of jail sentences on the unlucky seven, the city of Cleveland opened bids on eleven different types of water-hour meters. Five electrical companies, including GE and Westinghouse, submitted identical bids. On May 3, 1961, the government announced that it had rejected fifteen identical bids on more than $1,250,000 worth of electrical equipment sought by the Interior Department. And by the end of the month, *The Wall Street Journal* was reporting that, while prices had been driven down during the months of the federal government's antitrust action, they had turned right about following the sentencing scene in Philadelphia. In sixty days, steam-turbine generators had risen 15 per cent.

These indications that nothing had changed much under the surface of the business world were accompanied by the corporate pretense that the price-rigging had been a minor little peccadillo that really didn't matter. GE's public-relations department ground out releases on the theme that "General Electric has given good value" and "General Electric's prices are helping to fight inflation." The pitch was that GE wasn't going to have to worry much about civil suits for damages because it had provided such "fair value" that its customers were deliriously happy.

This happy world of the public-relations man, however, proved divorced from reality. Less than a year later the unhappy customers filed a barrage of more than 1,500 suits against the electrical conspirators. A shaken GE called Charles E. Wilson back into harness to try to arrange settlements, and on July 27, 1962, the corporation began the painful process of coughing up. On that date it agreed to pay the federal government $7,470,000 for money it had gouged out of the taxpayers on price-rigged bids. On August 14, it made a similar settlement with the New York State Power Authority, agreeing to pay $307,000 for overcharges. And these two settlements were only the beginning. What the flock of suits arising from the price-rigging conspiracy ultimately will cost the electrical companies and their stockholders is anybody's guess.

The Ethical Challenge

With these developments, the curtain rang down on the great electrical conspiracy case. What does it all mean? This is a question nobody is hastening to answer. One of the greatest ironies—and a clear indication that Chief Justice Warren was fully justified in his concern about the ethical climate of our time—may be found in the fact that even so great an exposure of the shallowness of our "sea of ethics" has accomplished nothing. And one reason for this is that none of the leaders of our society dare to face up to its implications—not even our churchmen. The clergy, supposedly our most perceptive leaders in the field of ethics, were baffled at the spectacle of the bellwethers of their communities and churches suddenly shedding Brooks Brothers suits for prison stripes. What were they to think of these "good guys" in "bad guy" roles? Frankly, they didn't know. The Rev. Raymond E. Gibson, then pastor of the South Congregational Church in Pittsfield, Mass., where many of the convicted had lived, put the dilemma of the ministry in these words:

> *Throughout the whole turmoil, the irrelevance of the churches to the situation was evident. No statement on the affair came from the Council of Churches. Ministers confessed the sense of confusion they felt — now is the time when a cogent word on the whole problem of corporate moral responsibility needs to be spoken.*

But it is quite obvious that no one knows quite what to say. In a symposium conducted by *Playboy* magazine last fall, a number of distinguished leaders in various walks of life wrestled with the moral problems presented by the electrical conspiracy. Sen. Jacob K. Javits (R., N. Y.) came perhaps closest to a recognition of what lay at the core of the case when he compared the dilemma of the price-rigging executives, caught in their corporate collectivism, with that of Eichmann, caught in his Nazi collectivism:

> *What do you do if you are ordered to do something wrong and you might get shot if you don't?* [he asked]. *Well, it seems to me that in international morality it is now held that, even if you're occupying the kind of a job in which you might get shot for not carrying out orders, you still don't do it. The individual is not covered by the fact that he's ordered to do it. The executive is not to get shot, but the principle applies. You either resign and denounce them, or you denounce them then and there and fight them. Even when, as a practical matter, you may be fired for taking this position, your ethical responsibility is to run the risk.*

There can be no question that Sen. Javits correctly stated the theoretical case. But, as the example of George Burens showed, the fight of the individual against the massed corporate hierarchy is a doomed and futile one; and when even so stout a man as Burens can be crushed and beaten, it is folly to suppose that the vast majority of weaker men will ever dare to attempt it.

Moreover, can it really be said that our society rewards the virtuous, the man ready for self-sacrifice to maintain his integrity? Think of the janitor Johnson, who found himself an outcast because he returned a bag of money he found on

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the streets. And now consider the case of William S. Ginn of GE, one of those who received a short jail sentence in the electrical-conspiracy trial. Mr. Ginn, upon emerging from prison, promptly stepped into the job of president of the Baldwin-Lima-Hamilton Corporation at a salary reputed to be in the neighborhood of $70,000 a year.

Similar hardships befell several of the other GE executives. One came out of jail and stepped into the presidency of a builder of earth-moving equipment; one became affiliated with a Massachusetts automobile business; a third became president of ITT Europe, Inc., and European general manager for the company.

As for the ethics, who ever heard of ethics? Most of the defendants, *Fortune* wrote, "looked on themselves as the fall guys of U. S. business. They protested that they should no more be held up to blame than many another American businessman, for conspiracy is just as much 'a way of life' in other fields as it was in electrical equipment. 'Why pick on us?' was the attitude. 'Look at some of those other fellows.' "

This, obviously, is not the attitude of the repentant and reformed sinner. One executive put it bluntly. He had, he said, learned just one thing—"to talk to only one other person, not to go to meetings where there are lots of other people." The ethic, as James Hagerty said about the U-2 incident, is "don't get caught," a noble and inspiring motto, certainly, on which to build the framework of society.

PART IV Business versus the People

The Package Hoax

The electrical conspirators proved to have been both unethical and illegal in their conduct. But not everything that is unethical is also illegal, as American consumers have been finding out for many years.

A U. S. Senate subcommittee headed by Sen. Philip A. Hart (D., Mich.) has held a series of hearings during the past two years exposing the widespread, calculated defrauding of the American housewife by some of the largest food-packing and processing concerns in the nation. The fraud that Hart brought out and flourished in the revealing light of day might well be labeled "The Swindle of the Supermarket Shelves."

It is made possible by the plethora of articles that jam our supermarkets. The shopping housewife, wheeling her basket, a child sitting in the carriage, another trotting at her heels, faces a mountain of between 6,000 and 7,000 items from which she must choose the thirty or forty needed to run her household for the week. Unlike shopping in grandma's day, there is no expert clerk, no knowledgeable grocer to advise her on brand and quality. She is on her own, half-distracted, searching shelves as she tries to make certain that Junior doesn't knock down a whole row of cookies or smash the soft-drink bottle; other mothers and their children are treading on her heels if she blocks the aisle trying to decide which is the best bargain. So, inevitably, she picks and grabs the package that looks as if it promises the most. The promise all too often is a fraud, for the situation is perfectly tailored for high-level corporate larceny, and great food corporations have been taking full advantage of opportunity.

Colston E. Warne, professor of economics and president of Consumers Union, told the Hart committee that, in the twenty-five years of CU's existence, no issue had so aroused the public as the deliberate fraud that is now being practiced in packaging. In one year, he said, Consumers Union had received some 500 complaining it-happened-to-me letters, with many correspondents enclosing comparative box labels as evidence. "The actual number of different commodities mentioned is over 100," Warne testified, "and runs the gamut from baby food to liquor."

Most of us probably know, if we have not forgotten, that a pound contains sixteen ounces; that a quart has thirty-two liquid ounces. But not today on the supermarket shelves.

J. Lyle Littlefield, chief of the Foods and Standards Division of the Michigan Department of Agriculture, cited to the Hart committee numerous examples of tampering with weight and size. He exhibited a container of chocolate-covered cherries. In one corner the label read "1 pound net," but this had been partly obliterated and the true figure printed in smaller, almost illegible type, "12 ounces net" —a full 25 per cent gyp.

The standard quart has become a chameleon. A quart is a quart, one would think. But no longer. One look at supermarket shelves will disclose labels that blatantly scream "a full quart," or "jumbo quart," or even "giant imperial quart." Now what is a "giant imperial quart"? It is the same old quart, but producers contend they have to scream this news to customers in the high-flown imagery of the advertising man because unscrupulous competitors are using bottles that look like "full quarts" but actually contain twenty-eight instead of thirty-two liquid ounces of product.

The same deception is practiced in luncheon meats. What looks like the old standard pound package today often contains only fourteen ounces, sometimes only twelve. In an effort to counteract such 25 per cent chisels, some packers have taken to proclaiming loudly on their labels that they are giving "a full pound."

The Super-Superlative

It is in package goods, however, that the corporate deceiver has a field day. The shelves reek with bright-colored labels proclaiming that bulky-looking boxes are "king-size" or "economy-size." Actually the "king" may be a cleverly disguised gnat. Take dry cereals, for instance. Littlefield compared several kinds, all labeled "large size." Two of the large sizes actually did contain a pound. But the others! One contained only twelve ounces, another ten and a half, still another only nine and a half—about as close to a 50 per cent deception as one can get. The big, imposing-looking boxes were what the trade calls "short-filled," and the consumer could never possibly know unless he took the time to hunt the obscure, telltale weight

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label, often printed on the back of the box and hardly legible because the figures, for example, might be in blue ink on a darker blue background.

Testimony before the Hart committee proved that, as a result of phony labeling and packaging, the consumer who thinks he is economizing by buying the "jumbo" or the "king-size" or the "economy-size" often is actually paying more per ounce than he would if he bought just a plain, ordinary-size package. To be sure of what he is doing, he would have to stop and calculate every purchase. And the trade has made certain he'll have the devil's own time calculating unless he has brought his slide rule and his MIT-graduate son along with him. For goods are no longer packaged in standard, easily reckoned quantities: pints, quarts, pounds. They are in odd ounces, odd half- and quarter-ounces even, all as part of a deliberate effort to keep the consumer from realizing how badly he is being rooked.

There can be no question about the thieving calculation that gears the fraud. Thomas P. Wharton, president of Packaging Consultants Inc., of Washington, D.C., described in detail for the committee the extreme effort that one manufacturer of chocolate mints had made to insure the cheating of his public. The cheater's carton was the same size it had always been—the same size as the cartons of competing candy manufacturers. But their cartons contained sixteen full ounces of mints; his, only ten. The deception, said Wharton, had been practiced this way:

> *In the inner package, the ends have been recessed a full half-inch. Two hollow partitions have been provided, each of which occupies another half-inch of space. This deception isn't even subtle. A full two inches of length has been faked within the package.*

The result was that this firm's customers were being short-changed 40 per cent on their candy mints, but the customers, deceived by the box, apparently didn't realize it. The result was, Wharton said, that two competing brands had begun to resort to recessed ends, hollow partitions—and fewer mints.

And frequently, the Hart committee discovered, the processor, having accustomed his clientele to one standard-sized box with a full, legitimate pound of content, will begin to chisel and deceive in a deft and calculated way. The size of the box will remain the same; a glaring blurb may even proclaim that it contains a "new," an "improved," or a "super" product; the price will be the same. But inside the package, short-filling techniques will have taken over. Sometimes such frauds are practiced gradually, with two or three unobtrusive reductions in the ounce-content before the irreducible minimum is reached. All the time, of course, the price remains the same, and the consumer, who perhaps has bought this brand for years, remains for a long time unaware of the fact that he is being gouged when he pays the same old price for less and less product. Such frauds, obviously, cannot accidentally happen; they have to be calculated and planned. As Professor Warne told the Hart committee, "the redesign-

ing of packaging is a very costly process. This isn't something that is done very quickly and where it is undertaken by a great many of these concerns, it does seem as if the purpose falls short of being aboveboard." To put it mildly.

Marya Mannes, of New York, a writer and one of the victimized housewives, did not put it so mildly. She pointed out that major corporations have spent "millions of dollars studying us—the consumer." She added:

> *They know what colors and what sizes and what shapes and what words we go for. Compared to them the Big Brother in George Orwell's* 1984, *who knows all and sees all is a piker. The big brothers in our society today are not government dictators — they are the sellers and their handmaidens, the behavioral scientists. Together, and under the banner of "free choice" and "open competition," they have made us believe that we are getting what we pay for. Their purpose is that innocent goal of free enterprise — to make an extra buck. But when their profit becomes our loss, how innocent is that goal?*
>
> *. . . Little deceptions of single consumers can add up to a mighty deception of the whole people. You may only lose a penny here and there, but the loss in dollars sustained daily by American consumers who pay for more than they get is estimated to be greater than the staggering amount we forfeit to crime and corruption. But it's not sensational. It doesn't hit the headlines. And who is going to bring it to your attention? The press which depends on advertising? Television which owes its existence to products? The makers of the products? As Eliza Doolittle said in* My Fair Lady, *"Not bloody likely."*

Contrasted with the honest indignation of Marya Mannes were the self-serving rationalizations of industry. Industry spokesmen were shocked at the proposal that new government regulations might be in order. Not necessary, they said; not necessary at all. You know why? The American housewife is a smart customer, "too savvy to get fooled more than once"; she'll shun those fraudulent packers and take care of everything. And besides all that was involved here were "nickel and dime" chisels, picayune amounts unworthy the serious attention of a Congressional committee.

Senator Hart was stirred to wrath by such sleazy rationalizations. He pointed out angrily that those "nickels and dimes add up to 30 per cent of the family budget and to $70 billion annually in retail sales." He derided the attitude that all responsibility should be passed along to the shopping housewife.

"Some witnesses have said the housewife is smart enough to know that 'serves eight' on the label really means 'serves four,'" Senator Hart said. "That is a sign of moral deterioration, and if it is true, it shouldn't be.

"You wouldn't want your children to adopt a philosophy like that. There's nothing good about this attitude."

Highway Robbery

Senator Hart's concern about the weakening ethical codes of America, as evidenced in widespread fraudulent packaging by eminent food processers, seems more than justified when one turns from his own restricted field of inquiry to those other and broader pastures that give the larcenous instinct full play.

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Probably as good a place as any to get a peep at the inside of this seamy morass is the highway-construction industry, which today is gorging itself on the luscious servings of a special platter—the federal government's $41 billion, nation-wide superhighway program. This is a gigantic task, designed to link every major city in the nation, coast-to-coast, by a 41,000-mile chain of expressways with no intersections, no traffic lights. The conception is that by the mid-1970s the motorist will be able to ride from the Atlantic to the Pacific at sixty to seventy miles an hour with never a pause for an intersection. It is a vision to make the American motorist salivate; it is also a vision that has been smeared with the slime of graft from Massachusetts to Florida and at way stations between.

Mysterious Entries

Typical of what goes on in the highway-construction field, a mere preface to corruption, was the case of Southern Equipment Sales, Inc., a machinery-sales company of Jackson, Miss. When the firm collapsed into bankruptcy in 1961, attorneys for the creditors began to trace mysterious entries on its books. It developed that these entries represented kickbacks to county officials. Southern Equipment had been kicking back a percentage on every piece of highway-building equipment the county bought. The traceable payoffs came to $125,000. In addition, Southern Equipment had paid thirteen of its own salesmen $32,161 to compensate them for the income taxes they had had to pay on the kickback money passed along to county officials. Representatives of Southern Equipment told a referee in bankruptcy that they had been paying off county officials for nineteen years; such kickbacks, they said, had become a way of life that amounted to policy "throughout the industry."

Take, for example, some of the disclosures that have been made during the past two years by a House of Representatives subcommittee headed by Rep. John A. Blatnik (D., Minn.). In May, 1960, the subcommittee disclosed that the $6 million, thirteen-mile Skelly Bypass in Tulsa, Okla., was already beginning to crack. The reason? The contractor had billed the state (the individual states have supervision over their sections of the program, though nine-tenths of the funds are supplied by the federal government) for some $524,689 worth of materials that had never been put into the road.

In December, 1960, the Blatnik committee turned its searchlight on Florida. It established that six contractors handling $70 million in road work had, during a four-year period, distributed gifts ranging from $54,000 to $75,000 to thirty-three Florida state highway engineers. The favors took the form of cash payments, liquor, lumber, hunting licenses, unrepaid loans and bonuses for extra services. William L. Cobb, head of a large construction company, admitted he also made such gifts to state road officials in Georgia, Mississippi, Alabama, and North and South Carolina.

Cobb had the decency to deplore the practice, said he had ordered it ended; but other contractors professed to see nothing really wrong with a little gift-giving. Charles E. Bailes, Jr., general superintendent of Cone Brothers Contracting Company, said his firm had mailed state engineers secret payments of $25 a week to get "that little effort" the company needed to complete the job. "And I believe the payments helped," Bailes said. "I am obligated to my company to do the best job I possibly can. . . . As long as I didn't engage in anything that I thought was faulty, I would employ many different things to get this accomplished." Clearly, he was expressing the only ethic business knows: anything that is good for business is proper.

But what happens to the public interest? Does that get fractured? Oh, no, said the kept-men, the engineers of the state highway department. They had not shaded the public interest in the slightest in return for that bounty of $25 a week apiece. Much evidence to the contrary was put into the record. H. S. Weathers, Florida's chief testing engineer, testified he found substandard material, poor workmanship and faulty construction on a $2.5 million strip of highway near Tampa. The road had been built by Bailes' Cone Brothers outfit. Some of the deficiencies, Weathers testified, were serious.

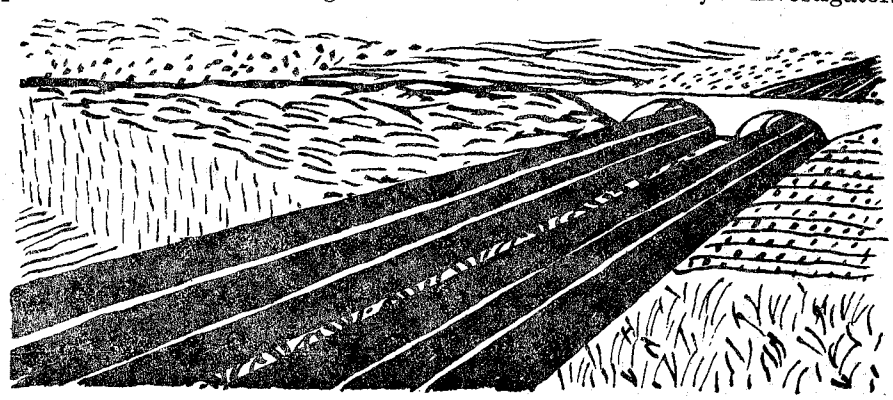
Road to Nowhere

This was little more than a patch to some of the other goings-on in Florida. David Brinkley, in one of his most scathing telecasts, publicized several of them on NBC's *David Brinkley's Journal.* For example, said Brinkley, there is a broad highway near Kissimee, Fla., that was built on the orders of J. Rolfe Davis, a member of the Florida State Highway Board. Brinkley noted:

> *It starts out and goes twelve miles to absolutely nowhere. It just stops, in the middle of a pasture. The county commissioners protested . . . the Attorney General said this too was illegal . . . but they built it. And there it lies, empty of traffic . . . used occasionally by a crop duster's airplane — the only twelve-mile airstrip in the world. It cost $220,000.*

Then there was the Howard Franklin Bridge over Tampa Bay. The bridge was built under the supervision of Joseph R. Maseda, Jr., a state engineer who in four years had received $4,700 from several contractors, including the Hardaway Contracting Company, builders of the bridge. The bridge cost $6,250,000. When its forty spans were tested, thirty-nine failed to meet specifications. Within two years, the surface began to heave and break up. The reason? The contractor, to save money, used salt water right out of the bay for mixing the concrete.

One of Brinkley's investigators



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questioned Manuel Hodges, a construction worker who helped build the bridge. It went like this:

Q. Mr. Hodges, do you think that bridge is going to stand up? Is it well built?

A. No, Sir. I would stake everything I have on it, it won't.

Q. Why would you make a statement like this?

A. Well, because for one thing it's put up with salt water. . . .

Q. Why did you use the salt water?

A. Well, I had to have a job. I was working, and you have to do what your boss says to do.

Q. What effect would this have on the bridge?

A. Well, your cement will not hold up like it would be with fresh water. And also your steel where it's in it, your rods, will be eaten up by the salt atmosphere from the cement, and also your cement will crumble and break.

Further on in the program, Brinkley pointed out that William H. McLeod was the state highway engineer in charge of all highway building in the Tampa area, including the Howard Franklin Bridge. McLeod, an investigation had disclosed, had received more than $10,000 in cash from contractors, plus some $7,500 in building materials for his new house. "We find him now to regard all this with a kind of easy, comfortable philosophy," Brinkley told his audience. Then he put McLeod on camera to explain his "easy, comfortable philosophy":

I never owned a home of my own, and I had always called Tampa my home [McLeod said]. *And I bought me a home and the contractors over the area that were on my jobs, they did furnish some materials possibly to put in my house. They would send out whiskey, cases of whiskey. They would send out hams, they would send out turkeys, and they would send out cash — envelopes with cash money in it.*

It's state-wide. It's been that way for years. I was never asked by any contractor to do — let them get by with anything. I have never asked an inspector, I have never asked an engineer who worked under me, to let a contractor get by with anything. The jobs that I have always worked on have been built in accordance with the plans and specifications of the State Road Department.

Obviously, those contractors in Florida are just the best-hearted and most altruistic of men, anxious to do a fellow a good turn with no thought of benefit to themselves. Obviously, too, the Howard Franklin Bridge stands there, a $6 million-plus white elephant, with its concrete breaking up and its steel supports rusting from the salt water used in its building.

After studying such disclosures Mr. Blatnik, in a common-sense summing up, said that he found "it difficult in the light of all the testimony to believe that the conditions prevailed without involvement of a *quid pro quo*, whatever its nature might have been."

Has Anybody a Town?

Florida was by no means alone. At Lordsburg, New Mexico, a $500,000 section of a new superhighway began to collapse even as state officials were approving it. And just nine miles west of Lordsburg, there was, said Brinkley, "a real marvel of highway building—a $300,000 overpass . . . with signs pointing to the turnoff to Gary. Well, here's how it goes. You drive along the highway to the overpass . . . turn right where the sign says . . . drive up the ramp toward the road to Gary . . . whereupon you will find there is no such place as Gary and never was. The road goes a few feet in the desert and just stops. If anyone should care to start a town and name it Gary, here's a nice place to put it . . . because the $300,000 entrance to it is already there."

Such scandals, Brinkley emphasized, were not a "minor problem confined to a few places." They occurred *everywhere* a road was built. Blatnik's committee investigated five states—and found scandals in all of them. The General Accounting Office investigated twenty-two states—and found scandals in all of them. The FBI investigated in six states—and found price-fixing, shakedowns, bribery. Thirteen states conducted their own investigations —and all found scandals.

What does such thievery on a nation-wide scale amount to? Federal investigators put it at 10 per cent of the overall cost. Since $16 billion has already been spent, that means *$1.6 billion* worth of loot. If the swindling continues on the same scale for the entire $41 billion program, that would be *$4.1 billion* worth of loot. As Brinkley said: "Nobody ever stole that much before. And the program still has years to go."

One of the most lucrative phases of the racket is to be found, not in construction, which is lucrative enough, but in the writing up of land values on right-of-way acquisitions. Some $7 billion, it is estimated, will be spent to acquire land for the superhighway routes; and for insiders with advance knowledge of where the routes will go, the opportunity is obvious. In one Florida case, testimony showed, a group purchased a tract of destined right-of-way land for $165,000 in 1956 and sold it to the state a year later for $240,000—a neat profit of $75,000, almost 50 per cent on the original investment. In Massachusetts, the systematic kiting of land values achieved such status as the regular way of life that the federal government more than two years ago froze some $12 million in funds that had been allocated to the state for land acquisitions for highways.

This cutting off of the Massachusetts program resulted from the discovery that state officials were conniving with lawyers and landowners to hike land values as much as 25 to 50 per cent. Literally millions of dollars in excess land payments were being poured down private rat holes, and the only way to stop the drainage, the Federal Bureau of Roads decided, was to cut off the funds at the source.

The Worcester Scandal

The action capped a series of seething scandals that had rocked Massachusetts ever since the famous watershed case of the Worcester Bounty in January, 1961. This was a shocker that exposed in rare detail the mechanics of a system under which virtually no public business was done without its meed of bribery.

Thomas Worcester was an engineering contractor. In three years, he did $2,750,000 worth of business with the state. He kicked back 10 per cent, an even $275,000. Worcester concealed the bribe money in various ways in his firm's accounts and charged it off on his income-tax returns as a necessary expense of business. An Internal Revenue investigation exposed the dodge, and Worcester was indicted for income-tax evasion. Though the indictment was returned in 1957, it hung fire for three years before being brought to trial before Federal District Court Judge Charles

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E. Wyzanski, Jr. Worcester was convicted, and then Judge Wyzanski, in an unusual step, offered him a choice: eighteen months in prison or full revelation of the kickback-corruption story before federal and state grand juries. Worcester chose to talk.

Subsequently, Judge Wyzanski spread on the record the full details of Worcester's testimony and, in addition, held public hearings to determine whether the contractor had told the full truth as he knew it. By this deed, the judge lifted the lid on Massachusetts' seething caldron of corruption, and the state ever since has been shaken by the explosion of one scandal after another.

Worcester's story, briefly, was that during World War II, he had done more than $100 million worth of work for the Army and Navy. His firm's performance was high, its reputation one of the best in the business. Then, in 1948, Worcester struck up an acquaintance with a man named Frank Norton, a mysterious figure who had had some shadowy business ties in Canada and Mexico. Norton assured Worcester he was "certain he could get jobs for me" because he knew one of the most powerful and influential officials in Massachusetts, William F. Callahan, former State Public Works chairman, later head of the Massachusetts Turnpike Authority. In recompense, Norton wanted a job with Worcester's firm, and he would have to have a kickback of 10 per cent, no questions asked, on every contract he obtained.

'In and Out'

Worcester took the bait. Norton moved into his firm as assistant to the president. Contracts began to flow in. The 10 per cent cash kickback was siphoned off in various ways and given to Norton, who never told anyone what he did with it. But he indicated clearly he didn't keep it; the money, he said, simply "went in and out."

Just what was involved in "out," Thomas Worcester didn't know, nor did he want to know. But eventually a certain degree of knowledge was forced upon him. In the fall of 1949, Norton was hospitalized with a heart attack, and Worcester himself had to take a package of cash to Norton's home. He testified that he delivered the package to Norton's wife; that she put it in the overcoat pocket of a man sitting in the next room; that she didn't let him see the man, but she told him he was Callahan.

Long before the scandal finally erupted in Judge Wyzanski's court, Norton had died of his heart ailment. Mrs. Norton and Callahan did their best to avoid testifying. Callahan, indeed, was so reluctant that he fought the Wyzanski subpoena to the U. S. Court of Appeals on two separate occasions. By the time he had lost his last legal battle, Mrs. Norton had testified, swearing under oath that she could not remember any such episode as the shoving of a package of money into Callahan's coat pocket. Once this version was in the record, Callahan himself came charging into court, shouting, "Never!"

Political Aspects

Aside from the issue of Callahan's involvement, other aspects of the Worcester case rocked Massachusetts. Worcester testified that he had contributed heavily to the unsuccessful re-election campaign of Democratic Governor Paul A. Dever in 1952 because "we had received all his work and there was more in the offing." The Worcester payroll—the "Worcester Bounty," Judge Wyzanski was to call it—had been loaded with political hacks, a form of payoff in which both parties participated happily. One lawyer was paid $11,000 in ten months for nonexistent "legal consultations"; ex-State Senator Edward M. Rowe was paid $20,000 because, as one witness put it, "the Democrats wanted Rowe to run [for Governor] in the [Republican] primary in order to create a division in the Republican Party." Vincent J. Shanley, then a member of the Boston City Council, on the recommendation of Governor Dever, spent seventy-seven weeks on the Worcester payroll at $50 a week. He was listed as a "public relations" man, did nothing. John G. Curley, a Democratic state representative at the time, was paid $75 a week for six weeks, did nothing. The list went endlessly on—a morass of phony jobs and padded payrolls, of political conniving and favoritism, for all of which the public paid in the inflated cost of the nearly $3 million worth of business the state did with the Worcester firm.

What disturbed Massachusetts, however, was the pattern that had been revealed, the reflection that Worcester's near-$3 million was only a tithe of the $243.5 million the state was receiving in federal highway aid, only a pittance compared to the more than $1 billion the state itself had lavished on its road programs since 1948. Judge Wyzanski put the issue into focus in scornful, accusing words that rocked staid Back Bay. He called Worcester's testimony "candid, credible, complete." He accused Mrs. Norton of "direct falsehoods and inexplicable failures to remember." He dealt with Callahan in these terms: "No one who reads in full Callahan's testimony . . . would care to stake much on Callahan's oath." The judge denounced what he termed "the sordid racket of extortion, bribery and corruption," and he asked a number of questions that, in effect, suggested a moral decay going beyond the case at hand:

Upon what basis was Worcester singled out for prosecution? Can it be true that of the successful bidders for contracts with the state, Worcester alone paid bribes and took them as deductions from federal income tax?

What sort of responsibility have the press and other media of communication displayed in reporting this case? Can it truly be said that with a high standard of detachment they have told the public all the court evidence that was discreditable, no matter whose ox was gored?

How far has the bar initiated reform based upon its daily experience with the sufferings its clients have undergone at the hands of a network of corruption? Were sophisticated lawyers unaware, until this case began, that to secure certain types of public business a contractor had to get his performance bond, or his materialman's bond, or his bond for wages, or his trustees' bond from a relative of a judge, or of a public official, or of a legislator?

Is the only method by which this venal system will be supplanted a public-insurance system modeled on other governmental insurance systems?

Have the private interests which professedly care about the capitalist system no awareness of what kind of free enterprise they have been fostering?

Do they not realize that the people will smite them when they see what this corruption costs in taxes, and, more important, in trustworthiness of judges, legislators and executives?

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PART V The People versus Business

White-Collar Crime

Every time that business demonstrates its only ethic is profit, it stimulates its workers to adopt the same standards for themselves—and, inevitably, at business' own expense.

Norman Jaspan, a management consultant who has become an expert on kickbacks and embezzlements, made the point in a speech before a group of marketing executives in 1961. Jaspan described the manner in which embezzlement had become the generally accepted way of life in one department store whose problems his firm had studied. Originally, said Jaspan, the store was prosperous and well run. Then the manager "buys himself a house in the suburbs and sends a couple of his store's maintenance men over to redo the interior for him. He figures, what's a little company time and a little company paint? But his employees get the principle of the thing. A few years later, $200,000 worth of goods is disappearing in a twelve-month period. He's a professor, this fellow—he gave them a short course in dishonesty, and they all graduated *cum laude*."

As Jaspan has pointed out in his book, *The Thief in the White Collar*, this particular type of crime raises a more delicate social issue than any other. He quotes Edwin H. Sutherland, the eminent sociologist, to this effect: "White-collar crime violates trust and, therefore, creates distrust; this lowers social morale and produces social disorganization." The point, of course, is that one expects criminals to be criminals; to find them practicing their arts does not undermine faith in the entire social structure. But the shock is much greater when policemen turn burglars and distinguished executives begin to loot the corporate till.

The extent of that shock, the nature of the social damage, may perhaps be gauged if one studies the portrait of the typical embezzler as drawn by *Fortune*. The magazine wrote:

> *The typical defaulter is in his thirties, is married, has one or two children. He lives in a respectable neighborhood, drives a medium-priced car, and once in a while travels on the weekend. Whatever his secret life, he usually looks like a good mixer and is active in the community; often as not, he's a church officer. Temperately, he takes an occasional drink. Usually he's had a couple of job promotions, partly because he's been around the firm for a while, and partly because he has slightly better than average ability, works hard, and seems willing to accept responsibility. In one study of 1,001 cases, 270 of the embezzlers held supervisory or executive positions.*

It is the picture, one might think, of the really "good guy" — the solid, respectable, valued citizen, the salt of our civilization. But it has become — given the ethical lassitude of the mass society — the portrait of the "bad guy," the secret thief.

Today's Robin Hood

As shocking as the portrait itself is the attitude of today's society toward the suave embezzler, once exposed. Indicative of the fact that we attach no opprobrium to the thefts that victimize *institutions* rather than *individuals* is the fact that the embezzler is often treated almost as a hero, a kind of Robin Hood. Take, for example, the case of Al Austin, the charming manager of the Manufacturer's Trust Company branch in New York's Greenwich Village. Al was known by everyone in the neighborhood, liked by all, did favors for all — but all the time he was embezzling money from the bank and losing it betting on the harness races. The embezzlement amounted to a good, round, whopping sum by the time Al Austin was caught and exposed. While his case was pending in the courts, he worked in a Seventh Avenue bar in which he had a secret interest, and before long business was booming. Longshoremen and neighbors flocked in; everyone, it seemed, wanted to drink a toast to "good old Al" who had hoodwinked bank inspectors so long and so successfully.

A similar attitude colors one of Norman Jaspan's most shocking anecdotes, involving a youth whom he identifies only as Roger, "the son of a minister in a large mission." Roger, after serving a three-year hitch in the Navy, went to work as a stock clerk with a wholesale drug and sundry company. His position gave him free roam of the warehouse, checking inventories to make sure the company had certain goods on hand. Roger's take-home pay was only $172 a month; he was paying out $81 a month for a second-hand Pontiac, which also ate up $40 a month for gas and oil. Roger, as can be seen, needed more money and he soon began to help himself to the drug firm's wares.

At first he simply took free samples of vitamins and medicines which he gave to the charges that passed through his father's mission. This was so easy that Roger soon was helping himself to other merchandise. Soon he was swapping goods that he stole for goods that other fellow employees had stolen — items like cameras and prescription drugs that were not available to him. Fearing that the stolen goods would be missed, he falsified the stock-card records. Roger ultimately came to grief when an honest store owner complained to the wholesale firm that other stores were selling its goods (some of the stolen goods, naturally) at a much lower price. An investigation resulted. It showed that Roger, in six months, had stolen more than $6,000 worth of merchandise.

The theft itself wasn't what disturbed Norman Jaspan most, however. It was the attitude of the youth's father, the minister. Listen to this direct quote from Roger:

> *My father told me that it's none of my business to discuss with the company what the other boys were doing and that the company should handle their own problems and that it wasn't for me to tell them anything other than what I, myself, personally took. My mother knew that I was stealing. She told me last night that she knew the stuff I was bringing home wasn't given out for nothing by the company. She is a little disturbed, but my father is used to these things and it doesn't seem to bother him!*

When one finds even a minister taking such a casual attitude about so serious a dereliction on the part of his son, one begins to understand the true dimensions of the ethical debacle in modern American life. It is a debacle founded upon a cynical lack of faith in the existence of standards at the top, compounded by the conviction that "everybody's doing it" and a man is a fool if he doesn't — as business does — "look out for No. 1." Added to these factors is the deep-seated

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and smoldering resentment of many individuals against the corporate "trap" in which they find themselves, of the overwhelming and ruthless and impersonal corporate power that uses and drains and discards men. This burning resentment of the corporate monster often underlies embezzlement by an executive who feels he has been double-crossed or misused.

Advancement to Crime

Take, for example, the celebrated case of Richard Crowe, the assistant manager of the 195 Broadway branch of the National City Bank of New York, who walked off with $883,660 worth of cash from the bank vault. Crowe had long been regarded in the bank as "a comer." He had started out as a clearance clerk, risen to teller, then note teller, loan teller and finally chief clerk. In 1932, National City, which had acquired a Staten Island bank in a merger, sent Crowe there to take charge because he was well acquainted on the island. Crowe's salary at the time was $1,800 a year, less than he had made working for the Miami *Herald* before he went to college. But he was, of course, "a comer"; his reward waited in the future.

Subsequently, in an article in *Cosmopolitan,* Crowe revealed what happened to this bright prospect. During the war, he was asked to help raise funds for the USO. He checked with the bank management. Sure, they told him; go right ahead; wonderful. The first campaign was a great success, and soon Crowe was a man in demand. Every charity drive, every civic organization wanted him to help in its financial campaign. Always, Crowe checked with his superiors to see if he should go ahead; always, they told him, sure, go ahead, wonderful. After all, every time Crowe's name appeared in the paper, National City's did, too.

Crowe was becoming a valuable front man for National City; he was getting it much favorable publicity. But many of the expenses were coming out of his own pocket. As he later wrote, he sometimes had to take a party to lunch or dinner:

The check would be, say, $40. Sometimes I got the full amount back from the bank; sometimes I didn't. And many times I took a customer to an $8 lunch and presented the bank with an expense item of about $3.50—which, I knew well, was about all they would allow.

Don't misunderstand me. I was living high and enjoying it to the hilt. I guess I got cocky and bigheaded; the public-servant business went to my head. But I was never home at night—I had too many places to go to—and when I was home, I was irritable with my wife and children. I suppose the out-of-pocket expenses were worrying me. They were terrific. Some nights, going to a formal dinner, I had to spend $25 or more for flowers for the hostess, getting my tails and white tie in shape, cab fares, tips, etc. Before long, I had to begin borrowing (don't forget, during the war I was making only about a hundred dollars a week). At that time, too, I was trying to pay off the mortgage on my house.

When the war ended, National City called Crowe in and suggested he take a transfer to the larger Broadway branch as assistant manager. He was promised a raise and was given the understanding that, before long, he would be made manager of the branch. He promptly agreed.

The raise came through, but he soon discovered that the branch manager was a man about his own age, apparently capable; there was little prospect that Crowe was going much further up the ladder. And he still had the burden of his fourteen-room house in Staten Island on which he had to pay the mortgage; in all, he still had to scramble to carry a debt load that totaled some $35,000. On his salary of $7,250 a year, he simply couldn't do it. At forty-one, Richard Crowe was trapped; blocked off on the advancement ladder; burdened with debts from the front he had put up during the climb.

So you can see what a mess I was in [he wrote]. *And, after months of keeping everything bottled up inside me, I found out I couldn't do it any more. One day—that Wednesday in March, as I stood there in Lawler's bar—everything exploded. I suddenly got disgusted with myself for leading such a phony life, trying to keep up with the Joneses. And I transferred the blame from myself to the bank—I somehow held the bank responsible for the situation I was in.*

I thought, What am I going to do?

And then I thought, I'll fix their wagon, good.

And that was how I decided to take the money.

On Friday night, March 25, 1949, after everyone had left the bank, Crowe scooped up nearly a million dollars in cash, stuffed it into a new suitcase, and took off for Florida. Nine days later he was arrested in the washroom of a small Daytona Beach night club. Brought back to New York, Crowe was tried, convicted, sentenced to three years in prison. A model prisoner, he was released after thirteen months. "When he returned home," Jaspan writes, "he was not only warmly greeted by his family but his neighbors as well. The only people who no longer spoke to Richard Crowe were those he had worked with for some twenty years. Officials at the bank had told their employees, including the best man at his wedding, never to see Richard Crowe again. Every one of them obeyed."

It was an outcome that, like the deed and its motivation, speaks starkly of the conflict between corporate dictates and man's instincts.

Those Lively Banks

No criminals, machine gun in hand or nitroglycerine in bottle, ever accomplished more than a fraction of the damage now being done annually by white-collar embezzlers of Crowe's ilk. Best estimates indicate that in 1962 embezzlements cost American business more than $1 billion (some put the figure as high as $3 billion)—a minimal figure at least *double* the amount of cash and goods stolen by professional criminals.

While virtually every line of American business is riddled with embezzlers, the seriousness of this new form of criminality is italicized by the experiences of an industry

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that represents the epitome of respectability—banking. In two and a half years (from January 1, 1958, through June 30, 1960) bank officials and employees embezzled roughly $20 million from 12,350 banks across the nation. It is estimated that this year, one out of every seven banks will have an embezzlement. A percentage breakdown by the FBI indicates that the bulk of these inside pilferings are the work of the banking hierarchy —30 per cent by cashiers; 12.7 per cent by bank managers; 8.6 per cent by bank presidents; 6 per cent by vice presidents. In other words, some 531 banks were victimized by their own cashiers; 152, by their own presidents.

The desperadoes of the underworld never achieved such success. Even in the depression-ridden thirties, with John Dillinger and "Pretty Boy" Floyd and "Machine Gun" Kelly riding high, the all-time record for the professional bank robber was a mere 554 robberies resulting in a take of $3,384,117 in 1932—a paltry figure compared to that of today's embezzlers.

Burglars in Blue

I have pointed out that where the average man might not think of gypping a friend or a personal acquaintance, he sees little wrong in filching from a multi-billion-dollar corporate monster that he secretly resents, or chiseling an insurance company. Let's see how this motif has played its role in the nationwide scandal of cops turned robbers.

A Los Angeles policeman put it this way:

> *It's three in the morning and you're on patrol and you hear a burglar alarm. You find the back door of a jewelry store open, and inside the place is turned upside down. Someone has taken a lot of stuff, but he had to leave in a hurry and there's a lot more lying around. There's nobody within six blocks to see what you're doing. You know the stuff's insured anyway. So what do you do?*

The question, as he asked it, was purely rhetorical. But it should be obvious that, once a cop sweeps up some loose loot from a real burglary, rationalizing the deed by the reflection that nobody will suffer because "it's insured," it becomes easier for him to take the next step —to pull off burglaries himself, again comforting himself with the thought that it is only the insurance company that pays. Many police burglars, fellow officers say, begin their extra-curricular careers in just such fashion.

In Denver, the stimulus was even more direct. Colorado's Queen City of the Rockies had been plagued by a wave of burglaries. Supermarkets, drug stores, businesses of all kinds were being broken into; safes were being carted away and looted. But the proprietors were not too concerned. Frequently, when police would be called to investigate, a store-owner would suggest: "Why not take something nice home for your wife? It's all covered by insurance, anyway."

The proprietor, of course, had no idea that he was, perhaps, bestowing an extra bounty on one of the very men who had looted his store the night before. But it seems pertinent to ask: Just whose side was he on? That of the "good guys" or the "bad"?

In this atmosphere of non-ethics, in which even the victimized store-owner encouraged a little extra looting, it is little wonder that the Denver Police Department eventually became riddled with some fifty-five burglars in uniform, nearly 8 per cent of its entire force. The Denver experience seems especially significant because the city is not a cesspool of corruption; it does not harbor, as Chicago and New York have harbored, major underworld gangs reaping millions of dollars of illicit loot which can be used to corrupt police and erode the standards of the force. In Denver, one of the guilty policemen later complained, "There isn't any graft. Nobody pays off for anything." Yet it was in Denver, in this atmosphere of non-ethics and insurance morality, that one of the major police scandals in the nation's history developed.

Foolproof Technique

It began, apparently, with one policeman on the force who was known among his fellows as "a guy always out for a buck." Such a one became a natural leader in a local atmosphere so complacent and indifferent. "Lying-around" loot quickly became too sparse and infrequent for his taste, and so he began to consider helping things along with a supermarket safe theft. In uniform, on routine patrol, he "cased" the supermarket, then induced some of his buddies on the force to go in with him.

Everything was carefully planned. The burglars were all off-duty policemen, but one of their lookouts was a patrolman on duty—he stationed himself in his police car just across the street from the supermarket. Further down the street in a civilian car, one of the off-duty cop-burglars kept watch; another was stationed at a window inside the store. This left just two cop-safe-crackers to punch and rip open the safe. It was a task that took them ninety sweating minutes; but when it was done, they had marvelous loot—nearly $40,000 in cash and about $25,000 in checks.

This first sip of burglars' tea proved so enticing—and everything had gone so smoothly—that the criminals in uniform couldn't resist trying it again and again. Success bred imitation. Soon other policemen were burglarizing; the ring grew and spread. In one transfer of personnel some five or six years ago, the original burglary group was shifted out of its territory and broken up. But all that happened was that its veteran members started up new burglary cells in the districts to which they had been assigned. In time, the Denver department became practically honeycombed with burglars.

The technique that these cops-turned-robbers developed was nearly foolproof. Off-duty policemen would do the actual jobs. Their buddies on active patrol would ferry them to the site, carrying the burglars' tools in the police car. Then the police car would stand by, covering the burglars. Sometimes a second police car would be stationed about a block away, at a location where flashlight signals could be exchanged with the burglars inside the building. If any interloper appeared upon the scene, if any alarm flashed over the police radio from headquarters, the guarding officers in the prowl cars would warn their buddies inside the burglarized building to decamp fast. Rarely did this happen. Most jobs were pulled off swiftly and smoothly, and the burglars, their tools and their loot were picked up by the patrol cars and driven to safety.

In most instances, the very officers who had pulled off the burglary would be assigned the next morning to investigate it. This made everything very convenient; for, if

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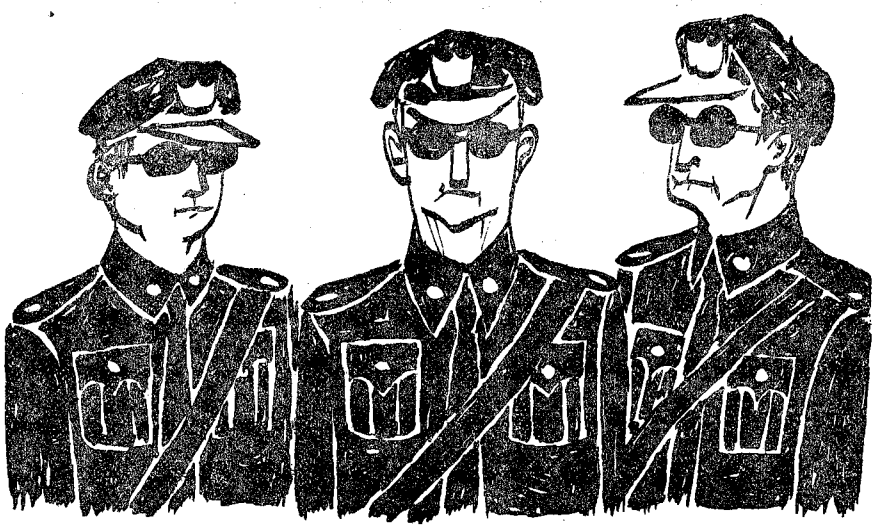

they had overlooked anything and left clues behind them in their haste to depart the previous night, they could now in their role of investigators remove the evidence. An elaborate system of payoffs was devised to keep other patrolmen in the burglarized areas happy and non-inquisitive, and so, protected on all sides, the happy burglars in uniform burgled away.

Smashing the Ring

Eventually, of course, something had to happen to disrupt this most perfect of all criminal worlds. It occurred early in 1960, when a couple of thieving patrolmen evidently got careless and pulled a job without the usual patrol-car protection. Two Denver cops, who didn't happen to be in on the act, spotted their car fleeing from the burglary of a coffee shop and gave chase. A safe fell out of the rear of the fleeing car, and the pursuers got close enough for one of them, John D. Bates, to recognize the fugitives as two fellow law officers. When Bates told his superiors what he had seen, they thought he was crazy and had him examined by a psychiatrist. But the psychiatrist decided that Bates wasn't mentally disturbed at all; he was simply telling the truth. And Denver, for the first time, realized that it had burglars on the police force.

The Queen City of the Rockies couldn't conceive, however, that the situation was as serious as it was. The Mayor explained soothingly that there will always be a couple of bad apples in any barrel. For a time, the public accepted this reassurance; but, in June, 1961, three more Denver policemen were caught red-handed trying to burglarize a supermarket in a suburban village to which they had extended their operations. It then became apparent that there were more than a couple of bad apples, and a state investigation finally revealed the shocking concentration of burglars on the police force.

The arrested patrolmen, in addition to the rationalization that only big chains and insurance companies had been hurt by their depredations, assigned a variety of excuses for joining the crime ring in uniform. "I went along because I wanted to be a good Joe and not get anyone into trouble," said one. "They [his senior officers] told me they'd give me a poor mark if I don't go along," said another. Several growled something about the relatively low pay of Denver police. Still others indicated they had turned to theft out of resentment of political influence. One patrolman joined the burglars after he had been disciplined for cracking down on the relative of a local bigwig; another, after he had been denied promotion following his attempt to arrest a relative of a city official for a law violation.

Quite obviously, such excuses do not excuse or explain. Clearly, none of these Denver policemen had in his makeup any deep-seated, inviolate sense of right or wrong, and so they were willing to involve themselves in flagrant crime on the flimsiest of rationalizations—even that of wanting to be "a good Joe." Such policemen seem the living proof of a perceptive analysis made by anthropologist Ruth Benedict in 1946. That early, she perceived that the United States was ceasing to be a "guilt culture" (one in which conscience self-imposes control of wrongdoing) and was becoming instead a "shame culture" (one which relies on public humiliation and punishment to deter the wrongdoer). Of course, that healthy ethical climate for which Chief Justice Warren pleaded can exist only in a "guilt culture," and as the Denver policemen-turned-robbers demonstrated, we are no longer such a culture.

Denver Not Alone

The point might be debatable if Denver stood alone. If its experience had been individual and unique, one might assume that it was the product of purely local conditions, of poor selection methods and lax supervision. But Denver was only one of a number of cities, large and small, from West Coast to East, that were experiencing this most drastic reversal — the law turned lawless. In Chicago, a major scandal involved a large number of policemen who had allied themselves with underworld burglars and, for years, had pulled off jewel and fur robberies and looted appliance, furniture and drug stores. In Reno, seven policemen were suspended for participating in a burglary ring that had ransacked ten stores. In Des Moines, an on-the-force burglary scandal led to the suspension or resignation of twenty-two members of the department. Nashville and Memphis were rocked by similar scandals. Cleveland more recently has been jolted by the confession of an eleven-year police force veteran that he had committed twenty burglaries and had been aided by ten fellow policemen. Even the campus of Stanford University and the college city of Burlington, Vt., were not immune to this virus that turned men in uniform into thieves.

Stanford was startled in mid-November, 1962, when two patrolmen on the special security force maintained by the university were arrested and charged with committing burglaries while they walked their beats. "Several thousand dollars worth of equipment" had been stolen from offices and classrooms over a period of months, according to the Santa Clara sheriff's office. An investigation disclosed that most of the equipment seemed to disappear between the hours of 8 P.M. and 4 A.M., while one patrolman and his partner were walking the "Quad" beat. Suspicion, so focused, grew into evidence when detectives

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established that a $75 check clearing through the account of the patrolman-suspect had paid for a tape recorder stolen from the university.

The patrolman admitted his guilt, implicated his partner and disclosed he had stolen and sold three other tape recorders—all for the bargain price of $75. Sheriff's office detectives recovered the three stolen recorders from purchasers who all professed astonishment to learn that they had been paying the wages of crime. According to detectives, they all "just thought they were getting a good bargain"—and, naturally, in the ethic of this profit-conscious society, one questions not the source of such bargains.

Stanford University's experience was matched on the other side of the continent by developments in Burlington, Vt. This city, located on Lake Champlain and the home of the University of Vermont, is a picturesque community of 37,000, proud of its Yankee integrity and honesty. Yet it was there, just four days before Christmas, 1961, that two patrolmen were arrested returning from the looting of a downtown restaurant. Soon three others were implicated in the burglary ring—five patrolmen in all, a tenth of Burlington's fifty-man force.

In the post mortems, it was pointed out that Burlington's policemen received only $60 to $70 a week in take-home pay. But it was also pointed out that this was about the same pay scale for all other wage earners in the Greater Burlington area—and not everyone had turned to crime. While some of the burglars in blue—married men with families—were having a hard time scraping along, at least one of the arrested patrolmen confessed he had committed the burglaries for thrills. "I didn't need the money," he said after his arrest. "When they caught us, I was relieved." Another acknowledged that he was in debt, but the most he could say was: "You can put it down that the low pay a policeman gets had *something to do with this.*"

That "something" is significant. Even the cop-burglar himself couldn't advance his low pay as the sole cause and justification. Obviously, the basic reasons lie deeper. Almost certainly, they are to be found, not in the individual temptations of a policeman's career, not in poor police pay, but in a blurring of the old distinctions between honesty and dishonesty, in the general meaninglessness to the individual in a mass society of the old ethics of honor and social responsibility.

PART VI Business versus Business

The collapse of ethics in our time nowhere is more devastatingly expressed than in the utter lack of principle at the top. The knifing and in-fighting among Organization Men would have done credit to the conspirators at the court of Caligula. A business magazine, *Modern Office Procedures*, asked its readers: "Is it possible for a man to move up through the ranks of management solely by honest, decent methods?" An overwhelming majority answered: "No!"

The nature of this internecine war of businessmen ranges from an almost wholesale throat-cutting in the scramble up the ladder to the executive suite to all kinds of espionage, bribery and connivery in the attempt to filch a rival's trade secrets. In both areas, in an atmosphere of intense combativeness in which only the end result is important, almost anything and everything goes.

The battle for the heights of corporate power leads to the kind of suave, Organization Man throat-cutting that is as lethal to careers as the lash of a jungle cat's extended claws to a beast of prey. Norman Jaspan has pointed out repeatedly that the atmosphere in the executive suite inevitably seeps down and affects all the lower levels of business. In this connection, probably no conduct has a more widespread or deleterious effect on employee morale than the spectacle of the bosses stabbing each other in the back with gangland professionalism. Yet, as Jaspan has noted, such back-stabbing and throat-cutting comprises "a rite being practiced by thousands of executives in hundreds of businesses."

It is a rite so widely practiced, indeed, that *The Wall Street Journal* last year became concerned about it and conducted a survey to discover just how prevalent is this ungentlemanly mayhem. In interviews with fifty executives in twelve cities, it discovered an unlovely lot. The trickery ranged from the spiking of a rival's drink just before an important meeting (thus guaranteeing that he would disgrace himself), to more complicated and really Machiavellian plotting against a competitor.

The vice president of one Eastern corporation, facing a rival for power in a rising new executive, went to the trouble of plugging the carburetor of his rival's automobile. This made the new man late for his first executive meeting and started him off under a lowering, black cloud. In another instance, an elevator company executive waited for a colleague's pet project to flop; then he submitted to his boss a file of memos—carefully back-dated—to indicate he had opposed the venture all along. Almost as telling as these examples was the unconsciously revealing remark of the executive of a Southwest oil company. After faithfully denying that there was any throat-cutting in his business, he turned around and commented ruefully: "Of course, some people in this company will do just anything to get ahead."

This attitude that a man is justified in doing "just anything to get ahead" spells, of course, the death knell of ethics. Such an atmosphere, as Jaspan has noted, "forms a natural breeding ground for white-collar crime. Its chief elements consist of trickery, a venomous subtlety and complete lack of ethics."

The Amorous Executive

All three elements were illustrated by a case that ties together back-stabbings in the executive suite and industrial espionage—a new, multi-million-dollar postwar industry. This case involved three partners who were sharing in the lush profits of a multi-million-dollar business. One of the partners was a fine business executive, well liked and capable. The other two had no reason to be dissatisfied with him, except that they began to figure that if they could find a way to

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eliminate him they could gobble up his share of the profits.

Thus motivated, they adopted a common tactic of today, hiring detectives to "get" something on their partner. They had no idea what they might get; almost anything that they could use for leverage would do. Taking the quickest route to the source of secrets, the hired investigators promptly wire-tapped the unsuspecting victim's home and office phones. The result was a great disappointment. No black and nefarious and usable tidbit of information came over the wires. Desperate, the two partners instructed the detectives to bug their pal's own private office.

Nothing could be easier. A minute gadget—a wall-socket microphone — was installed, and this faithfully monitored every conversation that was held in the office. Included was the chit-chat between the executive and his private secretary. The pair, the wall microphone revealed, were in the habit of staying late several nights each week—and it wasn't just business that kept them.

Armed with the irrefutable records of executive-suite dalliance, the

two conniving partners at once dropped their mask of friendship and lowered the boom on their one-time pal. "Resign," they told him bluntly, "or we'll play these records to your wife and children." The indiscreet partner, whose own office walls had concealed the ears that were his undoing, had no choice. He resigned within the week.

The downfall of the amorous executive represents little more than a minor incident in the new and growing field of industrial espionage, or IE, as business calls it. IE itself is Big Business today. It keeps literally thousands of detectives in bread and butter, trying to filch industrial secrets that may be worth millions, and it keeps another army of thousands of counterespionage agents active trying to thwart their designs. So important and so sensitive has the whole issue become that the protectors have a society, the American Society for Industrial Security, and when it held a convention last fall, some 2,490 members from chapters in fifty-eight cities attended.

In this new war between the forces of IE and counter-IE, no trick is considered too low; nothing that succeeds is beyond the pale of ethics. Time was when such industrial spying was a gentlemanly game played over a cocktail at a Madison Avenue bar. Rivals would try to pump information out of one another; each knew, of course, what the others were trying to do, and the whole affair had a somewhat sporting aspect. But today all the fantastic gadgets of the twentieth century are used as weapons. The wire tap, the minute microphone planted in the padding of the executive chair, the spying airplane, the searching of waste baskets by hired detectives, the bribing of engineers and key employees, the deliberate bating of a rival with a seductive Mata Hari—all of these are accepted techniques that are being practiced today on a phenomenal and ever-increasing scale.

Stealing Formulas

The most coveted loot in this game of fraud and deceit consists of the new discoveries, the new processes, that are being developed constantly by American industry through the expenditure of nearly $20 billion annually on research. In a typical case last October, a federal grand jury indicted eight men in an international drug pirate ring for the theft of secret formulas from the heavily guarded Lederle Laboratories at Pearl River, N. Y. Two former employees of Lederle, using their passes to get by the protective screen, had entered the labs at night, ostensibly to work, and had stolen research data and bacteriological cultures. Down the drain, according to Lederle, went work on new antibiotics it had taken a decade and more than $10 million to develop.

When the stakes are so high, no trick is ignored that may lead to financial advantage. On one occasion the board of directors of a multi-million-dollar East Coast corporation held a secret meeting in the president's office to discuss new plans and processes. They were unaware that they were under the constant observation of a little man stationed on the roof of an apartment building half a block away. Through binoculars, the observer, an expert lip reader, kept his eyes focused on the president's lips, and as the corporate president talked, the spy dictated into a handy tape recorder every word that he said.

The depths to which businesses will stoop in this anything-goes world of IE are illustrated by some of the cases in the files of Harvey G. Wolfe, of Los Angeles, who heads his own industrial counter-espionage firm. Favorite methods Wolfe has uncovered include the planting of agents in sensitive jobs, the purchase of employees already on the payroll, the use of listening and recording devices, the liberal exploitation of sex and, in some extreme cases, the blackmailing of executives.

The Sex Trap

Planning a coup, IE agents study minutely the executive dossier of their target. Wolfe says: "They find out whether he likes blondes or brunettes. What kind of liquor the man drinks. And the agent—blond or brunette—is told to be sure she has plenty of it when she entertains him. She's told to be friendly—make herself attractive, and develop this man."

One oil company executive, thoroughly scouted in this fashion, fell all unsuspecting into a carefully stage-managed trap. The setting was a lonely road; the props, a racy sports car, a flat tire—and a beautiful girl, fashioned and tailored to the executive's taste, standing helplessly beside it. Before the executive had stopped playing gentleman by changing the tire, he was hooked—and his company's secrets were ready to take wing into the ears of a competitor.

Of all Wolfe's cases, one stands out unforgettably in his mind. The head of a large construction firm was being constantly underbid by a competitor. If he bid $300,000 on a project, his rival bid $285,000; if his figure was $100,000 on a smaller job, his rival bid $95,000—and got the contract. This happened so often that the construction executive realized there must be a leak.

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Wolfe assigned one of his best agents to the case. The investigator worked diligently for weeks. Every suspect person and situation in the construction firm's setup was checked and cleared. Baffled, the investigator reported to Wolfe: "We've investigated everybody but our client." Reluctant though he was, Wolfe decided they had no choice but to bug his own client's home. "The client had a beautiful two-story Tudor-type home," Wolfe recalls. "We managed to get four of our miniature broadcasting stations into the house. We found what we wanted."

The electronic eavesdroppers revealed that, before every job on which he bid, the construction man's wife asked him, just casually of course, what his bid was going to be. Naturally, he told her.

"We had recordings of five such instances, but we wanted more before going to the client," Wolfe says. "We put a tail on the wife—twenty-four hours a day."

It wasn't long before the husband left town on a business trip. The wife dutifully drove him to the airport, kissed him goodby. Then she drove to a hotel and met a man—her husband's competitor. Watching the pair, Wolfe's detectives established that every time the husband left home, his wife and his competitor spent the time playing house together.

Wolfe hesitated to tell the husband of his sordid discovery, but of course he had to. "We showed him the movies and played the recordings," Wolfe says.

He was, he recalls, prepared for almost any reaction but the one he got. The husband merely watched, grunted and said: "Well, I guess we plugged that leak, didn't we?"

Then he wrote out a check for Wolfe, with a fat bonus.

PART VII Business versus the Government

The Kennedy Administration late last year asked Congress for a tax-reform measure that would have wiped out the expense-account and tax-loophole rackets. But the proposal ran head-on into the power of special interests and a Congress that seemed bent on demonstrating it was the servitor of special interests, not of the people.

To understand the kind of morality, the kind of society, that our tax laws have fostered, one must have a clear vision of some of the hanky-panky that had been ruled perfectly legal. The Kennedy Administration, in asking for reforms, threw open the door for the first time and revealed precisely how, in the 1950s, the upper half had been living at government expense — and that means at the expense of the average taxpayer. Hunting trips to Africa, the maintenance of elaborate hunting lodges, expensive yachts, champagne parties, gay night-clubbing, football and fight and theatre tickets — all were for free on the expense account, a tax-deductible way of life. As Robert J. Donovan wrote in the New York *Herald Tribune* after the disclosures, "among the deep social lessons" preached was this: "If you've been turning in low expense accounts these last few years, go shoot yourself."

A few examples of the kind of extravagances the tax courts had ratified under existing law should be enough to increase the impulse to suicide. For example, the president and principal shareholder of a milk processing and distributing company, an experienced hunter, went on a safari to Africa with his wife—a trip that lasted six months and included stays in London, Paris and Rome. Except for a few hundred dollars, the entire cost of $16,443 was allowed as a tax deduction because the milk firm, Sanitary Farms Dairy, Inc., got publicity every time its president-hunter got his picture in the paper posing with his foot on the neck of a downed lion.

Then there was the case of the Cleveland-Sandusky Brewing Corp. It wrote off $10,481, the cost of maintaining a cabin cruiser for the years 1949 and 1950, on the contention that such a seagoing bauble was essential to its way of business. Doughboy Industries spent $10,000 redecorating the first floor of the home of its principal shareholder-officer and charged it off to Uncle Sam because, it said, the home was used to entertain customers. Not content with this, it also passed along to Uncle the $6,600 tab for the installation of a lavish swimming pool so that the customers could dunk themselves after imbibing. The case was fought out in the courts, and 95 per cent of the overall cost of the two projects was written off in taxes.

A Way of Life

There were other and more prevalent dodges. One is the merry-go-round of entertainment under the guise of doing business. One revenue officer, whose report the Treasury Department quoted, cited the case of a father and son who were the president and vice president of a corporation the ownership of which rested in a small circle of shareholders. The corporation paid all their country-club and supper-club dues, charging the tariff off to entertainment for business purposes. But the revenue agent noted that the businessmen whom the pair entertained in turn entertained them. "Each member of the club is supposed to give a party once each year for the others," he wrote, but it was impossible to prove that these jolly gatherings were purely social "because the officers can always point to some of the parties who were supposedly instrumental in their having obtained some [business]. . . ." The agent noted that a lot of the "business" traveling and "entertaining" seemed to take place to coincide with "some New Year's Day Bowl game or other affair, yet the trip was to see some concern about selling."

The Wall Street Journal, in a separate and private exploration of this paradise world of the expense account, came up with some shining examples of what goes on in the corporate "way of life." For example, it reported on a $60,000 hunting lodge, staffed with a cook, gardener and two other servants, in the wooded mountains outside Portland, Ore. Many companies, wrote the *Journal*, maintain just such lodges; a key to them is a symbol of status in the executive suite; entertainment in such deep-wooded retreats whets the friendship of the buyer. "Officials of a big Florida food supplier have a several-thou-

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sand-acre ranch at their disposal," the *Journal* wrote, "and it's used to butter up customers with some of the fanciest living the Sunshine State has to offer." The cost? Written off to business expenses, of course.

So many corporations maintain so many yachts (purely for business, naturally) that the *Journal* noted "Lloyd's register of American yachts lists fifteen corporate owners under the A's alone." It told the touching story of a Midwestern nuts-and-bolts maker who became dissatisfied with the volume of business being produced by sales agents. So the company began sending a "Beechcraft-Bonanza winging around the nation to pick up valued customers for a weekend of fun at its private woodland retreat. Clients were plied with hunting, fishing from the firm's forty-six-foot Chris-Craft cruiser, skillfully mixed drinks and the charms of several toothsome hostesses hired for the occasion. Business rallied."

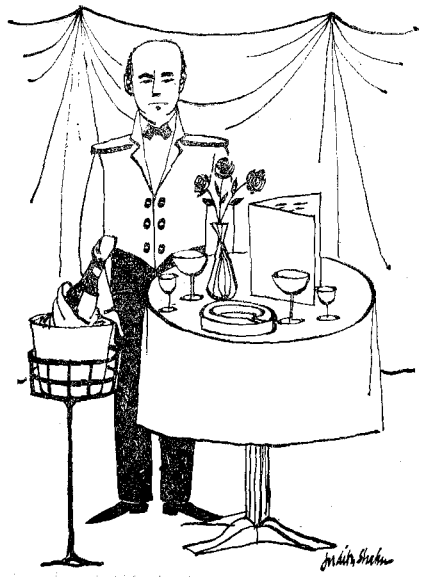
Summing it all up, the *Journal* concluded that top executives are "still enjoying the frills enjoyed by the Mellons, Morgans and Baruchs." Why not? For — unlike the man in the street—they pay no taxes on the money they spend for pleasure and extravagances. Indeed, the more fun they have the less their tax bill.

Spartan Proposals

As an antidote, the Kennedy Administration recommended a program so Spartan that it can only be described as positively un-American. This program, as explained by Treasury Secretary Douglas Dillon, would have:

- Fixed a maximum $10 outlay annually for each recipient as a "business gift."
- Limited expenditure to "somewhere" between $4 and $7 each for entertaining one individual daily for business purposes. (No call girls on that amount.)
- Established a $30 daily ceiling on deductible expenses per individual for business travel.
- Banned all tax deductions for expenses incurred for entertaining business guests "at such functions as parties, night clubs, theatres, country clubs and fishing trips. . . ."
- Forbidden any tax deductions at all "for luxury entertainment facilities such as country club dues."

These, said Dillon, were "realistic



recommendations." They were, indeed. But legislators who like to beat their chests and yap about how tough we are every time a Berlin crisis or a Cuban crisis hits the headlines had little taste for the kind of Spartan diet that builds toughness. They even tried at one stage of the tax-bill drafting to open a new loophole for the profligate, expense-account way of life. They did this when the Senate Finance Committee, headed by that devotee of fiscal responsibility, Senator Harry Byrd, of Virginia, came up with the doctrine of "the Prudent Man."

Under this novel conception, anything—anything at all—could have been deducted from income taxes provided it was a business or entertainment expense that might be incurred by "a prudent man in the exercise of his sound judgment." This is a definition, of course, that means anything and everything to all types and classes of men. It moved James Reston, *The New York Times*'s Washington correspondent, to a nice bit of fancy:

> *This obviously has possibilities. Suppose a citizen of the Great Republic absolutely has to go to Paris on business, or to New York, or anywhere else where the women are recklessly beautiful. In this situation a Prudent Man, in the exercise of his sound judgment, would obviously take along his wife and write her off as a prudent deduction. . . .*
>
> *Consider the agony of living in the same world with both Nikita Khrushchev and Mortimer W. Caplin, the new Commissioner of Internal Revenue. No less an authority than President Kennedy has told us that this is a dangerous time. Khrushchev has said that he now has an intercontinental ballistic missile that can hit a "fly in the sky" and cannot be brought down by anything in the arsenal of democracy.*
>
> *In such a world, equipped with such ghastly fly-swatters, a Prudent Man would surely provide some means for the escape of his family —say a yacht well stocked and lubricated with provisions capable of maintaining life for a considerable period of time. Or a hide-away in the mountains equipped with a large, deep pool of water for protection against radiation. And these would, of course, have to be maintained and kept in running order by periodic use, say on weekends.*

It says much about our ethics that such a doctrine could be seriously considered, let alone advocated. In the end, though Congress refused to adopt the Spartan rules Dillon had recommended, it did pass a bill that just possibly might curb some of the wilder extravagances. The new measure provided that expenses, to be deductible, must be "directly related to" or "associated with" business, and they will be allowed only if they are incurred directly before or after a "substantial and bona-fide business discussion."

Lots of Leeway

Such provisions obviously leave a lot of leeway—for no deal actually has to be concluded, it has only to be discussed. And businessmen who cannot think of something they might have discussed before taking off for the theatre or the fight or the big bowl game are certain to be a rare breed indeed. Even so, business has squawked; restaurant and night-club owners have almost swooned at the thought of what such restrictions may do. All depends on the interpretation of the new law, and the betting is that, with provisions so elastically written, with pressures so severe, our expense-account "way of life" isn't going to be too drastically altered.

What Congress did in 1962 (and may be expected to do in 1963) was to reject a program of clear-cut and Spartan honesty in favor of a weasel-worded substitute whose general effect is to underwrite the present system. The game is still to "get away with it," and if you can "get away with it," it's all right. Congress itself has said so. What better underwriting for the mores of our time can a taxpayer expect?

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PART VIII No Romance in Business?

Repeated revelations in recent years have exposed the fact that, on many levels of business, prostitution is almost a way of life. One of the best-detailed of these exposés occurred in the late 1950s, when federal agencies cast a dubious eye on the activities of a buxom, stylish, Polish importee by the name of Nella Bogart. Nella, it turned out, was a high-level call girl for Big Business; in fact, she was so expert at entertaining her customers that, in bursts of gratitude, they sometimes doubled and trebled their orders for electrical appliances. Nella herself described with considerable pride how she became so adept at working the gentlemen up to bigger orders that she really considered herself not a prostitute, but an executive-suite saleslady.

The firm in whose cause she labored so lustily was the General Electric Supply Company, of Newark, and as mighty GE hastened to point out, this was an entirely separate corporate entity of whose bedroom activities in the cause of better business the GE hierarchy could have had no possible knowledge, no more than they could of the electrical price-rigging. Knowledge on the customer's level, however, was not so restricted; for Nella Bogart, according to court testimony, put her charms at the service of GE Supply in apartments in New York; and on at least one occasion, with some other girls having a similar devotion to the goals of free enterprise, she traveled to Newark to perform at an electrical dealers' convention, an affair that turned out to be such a bacchanalia that fastidious Nella, she says, quit it early in disgust.

Airing the News

The sexy sales technique of Nella Bogart attracted some bold headlines in the press at the time, but it left unanswered the key question: Was Nella Bogart an exception to the rule? Or the example that illustrates the rule?

In January, 1959, Ed Murrow attempted to give the answer in a sensational CBS radio documentary on the world's oldest profession. The program turned a searching national spotlight on the call-girls-for-big-business routine. Several of the call girls who had gone all out in the cause of free enterprise told their stories in taped interviews, and across the nation the Murrow radio exposé caused a great flap. To hear the shocked masters of the executive suite, the moralists of the press, one might have obtained the erroneous impression that such sensational matters had never been called to public notice before. Actually, of course, virtually every "disclosure" on the Murrow program was a matter of fairly common knowledge; the only thing was it had never been said so bluntly on a nation-wide radio hookup.

Back in 1954, for example, Vincent F. Sullivan, national advertising manager of the New York *Daily News*, published a book, *How to Sell Your Way into the Big Money*. In this, Sullivan devoted an entire chapter to a description of how the call girl aids the big sell. Sullivan himself decried the practice and advised his readers to abjure it, but he left no doubt that some mighty important persons, indeed, were being catered to in very exclusive fashion. He described one well-appointed, twelve-room duplex apartment on "New York's snooty Central Park West," where a motor magnate from Detroit, or any comparable emperor of business, might present himself for an evening's erotic entertainment.

"It is known on Ad Row," Sullivan wrote, "that complete satisfaction is to be found from the moment the finger touches the doorbell chimes."

He explained that there were no single-admission tickets to this emporium of licentious pleasure. There were only season passes, and a season's pass came high, being price-tagged at about $250,000 worth of advertising.

> *This gilded palace of pleasure* [Sullivan wrote] *is maintained by the sales organization handling the advertising of a group of magazines that you probably read in your own living room weekly or monthly. As a salesman for this organization, the whorehouse is the final sales weapon. And it invariably produces the contract, too. . . .*
>
> *This type of selling is known in the sales profession as whorehouse-selling, and it is not at all uncommon. There are several apartments around New York devoted exclusively to just one type of client—your client! Further, the entire picture of selling is complicated by a number of immoral and unethical practices where large orders are involved.*

When *Advertising Age* took Sullivan to task editorially for saying such nasty things about the profession, the author fired back with a letter in which he offered a free demonstration:

> *It would be my suggestion that when your editorial writer is next in New York he telephone my offices. . . . I will take him to two "gilded palaces of pleasure" on Central Park West; one, more elaborate, on Central Park South, and three in the Sutton Place area of New York City. In these places, I am quite certain he will meet a number of his friends in the advertising and selling business.*

And that, as far as the record goes, seems to have ended *that*.

Rewards of Sin

In a subsequent disclosure, sociologist Sara Harris, writing in *Cavalier*, attacked the problem from the procurer's angle. She quoted a number of "big-time procurers in gray flannel suits" who spoke to her unabashedly about their practices. One public-relations executive of a New York textile firm told her: "I maintain a long list of call girls—white, Negro, Chinese." He described how he had fixed a big buyer up with one of these, and the buyer "placed a bigger order than the boss expected, much bigger. So . . . I got a beauty of a bonus." Another executive for a big business firm told Miss Harris he got $500 and continued expensive presents from a "sadist" who "almost killed . . . one girl on my list. . . . And you know he wouldn't buy from any firm but mine. He's not the only one I've got where I want him." Still another executive told of furnishing high-school girls for middle-aged buyers; another of staging obscene exhibitions for buyers; another of importing movie starlets from Hollywood for a night of prostitution in New York. "Of course," this last man said, "our clients have to be mighty big fish for us to go to such trouble for them."

Following the Murrow broadcast, A. J. Hayes, chairman of the AFL-CIO Ethical Practices Committee, urged the McClellan Senate rackets committee to investigate such business-sponsored immorality. The

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committee, after studying the matter, decided that call girls were strictly an "industry problem," outside its purview of dealing with matters affecting labor-management relations. It was suggested that perhaps Internal Revenue might crack down on such goings-on since, obviously, most business firms were writing off sex-for-hire as a legitimate business expense—and so passing the cost of prostitution right along to Uncle Sam. Internal Revenue, however, explained that it doesn't have the staff to investigate every entertainment item submitted by every call-girl-hiring corporation. Internal Revenue would "love to investigate," a department spokesman said, but it just can't "specialize in one area."

PART IX The People versus Themselves

From every facet of American life, the evidence mounts that the sea of ethics Chief Justice Warren envisions as indispensable to the rule of law has become a veritable ocean of non-ethics. The average American is no fool. Consciously or intuitively, he senses that he lives in a world of manipulation and fast deals; he knows that the elite of his society are running yachts and hunting lodges, or taking long safaris to Africa, on the expense account at the expense of Uncle Sam; he knows that the mightiest corporations in the land are rigging prices, turning out shoddy products for quick obsolescence and occasionally hiring call girls. He knows that the corporate world has become a dog-eat-dog jungle, its only ethics to be found in the answer to the question: Does it make a profit?

So the average American takes his cue from his betters. He reasons that, if he is to make his pile, he must do it, not by thrift and honesty and hard work, but by the ruse and the gimmick. He asks himself in essence the same question the great corporations ask themselves: Will it make me a fast profit, will it get me ahead?

So we have become, to a tragic extent, a society of frauds and cheats. Too many of us are willing not only to cheat others, but ourselves as well. Whom else do we cheat when we buy a school diploma or a passing grade on an examination? Who was Charles Van Doren's chief victim, if not himself? Even when we are exposed as cheats, we exhibit an incapacity to understand that there is anything greatly wrong with what we have done. Surely this incapacity is more disturbing even than the cheating.

To understand the extent and the importance of this modern world of non-ethics, one needs only to study two aspects of our times—certain attitudes widely prevalent in our schools and colleges, and the great, national self-revelation that was afforded by the television quiz-show scandals.

The School Cheat

In Los Angeles a poll was conducted among 1,174 ninth-grade students at the Bancroft Junior High School. The students were asked whether, if they had a chance to copy the answers to questions they would be given on a test, they would take advantage of the opportunity. Forty-one per cent said candidly that they would. One ninth-grader practically parroted the words of James C. Hagerty in the U-2 incident. "I think that anyone given the chance to cheat and not get caught would take it," he wrote. "If it's there for the taking, take it." This boy, only in the ninth grade, rates an accolade for positive brilliance; young as he was, he expressed perfectly the perfect motto for his era—"If it's there for the taking, take it."

Yet ironically—and again in perfect tune with our times—from 74 to 94 per cent of the students questioned (including, of course, the great percentage of those who would cheat), rated themselves as "basically honest" and unwilling to "compromise ideals for power, money or prestige." This belief in their ability not to compromise when they had already compromised is typical of our time. Many of the students justified their cheating because, they said, the pressure was upon them from home to "get those grades up—no matter what!" So they yielded to the pressure, they met the necessity by cheating if they could; but this did not tarnish their opinions of themselves. "I am honest most of the time," one twelve-year-old student wrote, giving the attitude its perfect expression. Obviously, the students of Bancroft Junior High were beginning to qualify for the Organization Man of the future.

The school in Los Angeles was not alone in exhibiting these symptoms. Philip Jacob, professor of political science at the University of Pennsylvania, found the same attitudes when he conducted a broad poll of college students. He reported that, in many colleges, frequent cheating is admitted by 40 per cent or more of the students "often with no apology or sense of wrongdoing." He found that even college administrators were frequently tolerant toward cheating.

Two deans, for example, contended that honesty should be judged by "extenuating circumstances." They explained that students often "backed themselves into a corner" with heavy work loads and social activities, then looked for a way out. Why did the students do this? Experts agreed that the pressure was on them to obtain good grades so that they could get a degree and social approval, essential springboards to a good job or a good marriage. What they learned really didn't matter. So true was this that faculty members of an Eastern school for women, listing fifteen traits for the "ideal student," placed intellectual integrity *last*.

This bottom-rung ranking was not just a theoretical proposition. The students of Rider College in Trenton, N. J., gave it a graphic, real-life demonstration. Rider is a ninety-seven-year-old business college; it numbers among its alumni bank executives, corporation partners, top business leaders. It tries, in the words of its Dean of Students, Robert A. McBane, to teach its undergraduates "to be honest businessmen," to teach them that "there is such a thing as business ethics." It was a battle of instruction that Rider lost in shocking fashion when, in March, 1961, it was forced to expel twenty-two juniors and seniors for running a blackmail racket to upgrade failing or unsatisfactory marks.

A "friendly" recorder, it de-

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veloped, had been persuaded to upgrade a few failing marks. Other students learned of his action and threatened to expose him unless he did the same for them. Virtually all of the students involved in this hijacking of grades were business-administration majors and came, according to McBane, from "solid, respectable families." When the cheating was exposed, these students showed not the slightest signs of repentence.

"The thing that alarmed me," Dean McBane said, "was the complete absence of the feeling in some cases that they had done anything wrong. There was no feeling of moral guilt in them."

So far removed from a guilt complex was one student that he tried to use on the college the blackmail technique he had employed on the "friendly" recorder. "Be nice to me and I won't start a scandal," he brazenly told school officials.

Others, less brash, seemed simply unable to understand what they had done that was so heinous. One argued that the course in which he had obtained a fraudulent grade wasn't important—"I'll never use it" —and so no real deception had been involved. Another said he had wanted a higher grade to become eligible for fraternity pledging; still another—he had had a C raised to a B—couldn't understand what all the fuss was about and argued that everything should have been settled amicably by giving him his C back. Most significant of all, the scandal found its way into the newspapers only because some of the expelled students, feeling *they* had been wronged, tipped off the press.

Diplomas for a Fee

The New York *World-Telegram and Sun* two years ago exposed a flourishing bucket-shop operation in the educational field in New York. Unscrupulous research agencies had put educational fraud on a business basis. For a set schedule of fees, they would provide sit-ins to take critical tests, or they would write term papers or prepare the master's or the doctor's thesis so vital to an advanced degree. Frequently, the arrangements for such factory-produced frauds would be made, not by the students, but by parents eager to see their children "get ahead," no matter how. The attitude of the parents seemed to be that they were making a business investment; they were buying their offspring degrees, just the way one might buy a plumber's license.

The answer was spelled out in June, 1961, when the New York State Board of Regents revoked the medical licenses of twenty-four physicians after discovering that their grades had been altered on their qualifying examinations. Some of these unqualified doctors had been practicing their arts on the unsuspecting public of New York for nearly four years—a fact that was of slightly greater moment than a plumber pursuing his calling with a fraudulently obtained license.

The TV Cheat

The TV quiz shows were the perfect expression of our something-for-nothing society. People from all walks of life, many of them poor, most of them unheralded and unsung, got up before the television cameras and demonstrated their hidden, inner brilliance by answering tough questions on a subject of their own choosing. The winner on each program achieved with delightful speed and ease every man's desire—the pot of gold at the end of the rainbow. As the prizes mounted into five figures, even six, millions of Americans watched, completely enthralled by a performance in which wealth came so easily for just a little, "right" knowledge.

Some skeptics wondered just how bit actors and grocery clerks could have acquired such encyclopedic knowledge of the ancient Pharoahs and obscure English verses, but the great American public itself evinced few doubts as it continued to lap up the contests of the intellectual gladiators. Trendex ratings soared.

The first tiny storm cloud on the horizon arose in December, 1956, when Miss Dale Logue, a Las Vegas chorus girl who was supposedly an expert on astronomy as well as anatomy, filed a suit in New York Federal District Court against the producers and sponsors of *The Big Surprise*. She claimed that she had been dropped from the program after being unable to answer a question which she had flunked in a private "warm-up" session just before air time. *The Big Surprise* was a television quiz show produced by Entertainment Productions, Inc., headed by S. R. Carlin. The chorus girl's suit stirred a mild curiosity on the part of *Variety*, which interviewed Carlin and evidently took his word for it that EPI, "with top prestige and a great stake in quiz shows, tried to exercise unusual caution in seeing to it that its properties do not fall into disrepute, discredit or dishonor. . . ."

This world of sensitive honor was a decidedly peculiar one, however, as subsequent events demonstrated. On June 1, 1959, after hanging fire for nearly two and a half years, the Logue suit was mysteriously settled out of court. *Variety* tried to find out what had happened, but nobody would talk. One of the attorneys in the case said that his "lips were sealed 'by my clients.' " This sealing seemed rather strange in such an open and above-board world, but by the time it occurred *The Big Surprise* had gone off the air and other events had advanced the incipient quiz-show scandal several leagues onward.

The Lid Lifts

The mysterious show-girl suit, plus ugly and recurrent rumbles in the trade, piqued the curiosity of some of the nation's foremost publications. *Time, Look, The New York Times*, all poked their noses into the basic question, "Are the Quiz Shows Fixed?" And all decided, well, not really. Producers, they thought, probably exercised some degree of "control" over the programs through the knowledge they had gained of contestants' weaknesses and strengths in preliminary testing, but there was nothing to suggest outright fraud.

It was a verdict that warmed the cockles of the heart of the television industry, for quiz shows were by now multi-million-dollar businesses. Two of them dominated the air waves above all others and fascinated the American public as nothing had since Arthur Godfrey and His Friends abandoned the world of humility. Carlin, the mogul of

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the departed *Big Surprise*, had come up with a veritable gold mine in the *$64,000 Question*. A property of rival worth was *Twenty-One*, produced by Jack Barry and Dan Enright and aired over the NBC network. On both shows, the most unlikely persons demonstrated their uncanny knowledge of obtuse subjects, and the American public watched agog.

Then came August, 1958, a month that can only be compared to 1929's Black October in the stock market. Abruptly, on August 16 of that year, Colgate-Palmolive Peet Corp. and the Columbia Broadcasting System announced without explanation that they were canceling the quiz show, *Dotto*. Reporters scrounged around for days before they got wind of just what had caused this sudden and inexplicable decapitation. Finally, Colgate conceded that the show had been canceled because an affidavit had been filed on August 7 regarding what Colgate gently called "an incident." There was no description of the "incident." CBS would say only that, as a result of it, it had conducted its own investigation of all its quiz shows and "had failed to turn up any 'improper procedures.'" This, of course, made matters crystal clear. On the one hand, there had been no "improper procedures"; on the other, an affidavit which must have contained something other than a criticism of motherhood had been filed—and *Dotto* promptly had been axed.

Informative Notebooks

Later inquiries were to show what had happened. On May 20, 1958, Edward Hilgemeier, Jr., an unemployed twenty-four-year-old actor, had been waiting as a standby contestant to go on *Dotto*. As it turned out, he wasn't needed on this particular day, but as he waited, he noticed a notebook lying on the floor. It had been dropped accidentally by a woman contestant then doing valiant intellectual battle before the cameras with a competing, brainy female. Hilgemeier, leafing through the notebook, was startled to discover a list of questions that matched exactly the questions at that moment being asked on the show. And so it was hardly surprising to him when the contestant who had absent-mindedly dropped the tell-tale notebook emerged the victor in her titanic television duel—and the winner of $4,000.

What Hilgemeier next did with his discovery fits perfectly into the moral code of the Los Angeles ninth-grade student who said: "If it's there for the taking, take it." Hilgemeier took. He approached the losing *Dotto* contestant and shared his knowledge with her. The vanquished lady promptly banged upon the doors of Frank Cooper Associates, producers of *Dotto*, and demanded the payment of a sum equal to what she claimed she had been cheated out of by the notebook owner. Cooper Associates, in tacit confession of the error of its ways, paid her $4,000. Then Hilgemeier, the discoverer of the fraud, appeared upon the scene, righteously indignant and insistent that the shock to his faith in man deserved some recompense. Cooper Associates evaluated his discomposure at only $1,500, a price that so disillusioned Hilgemeier that he promptly filed an affidavit with the Federal Communications Commission, alleging deception on *Dotto*.

Enter 'Twenty-One'

The mystery of *Dotto's* demise, so inexplicable in CBS's own version of the fatality, needled the press into pursuing a few tentative inquiries. Reporters questioned some of the contestants on the other top quiz shows. First and foremost on their list of knowledgeable prospects was Charles Van Doren, the star of NBC's *Twenty-One*. Van Doren, a Columbia University instructor, was young and engaging and obviously brilliant. He was the son of Mark Van Doren and the nephew of Carl Van Doren, the biographer of Benjamin Franklin; he was the author of three books in his own right; and he was possessed of a boyish, winning smile that qualified him for his rank as the matinee idol of the quiz programs. Combining all of these qualities with what apparently was an awesome range of knowledge, Van Doren had run his earnings up to $129,000. So, naturally, reporters sought him out early in the game and asked him what he knew about quiz-show rigging. Van Doren simply scoffed.

"I never got any kind of hint or help and, as far as I know, nobody ever did on the program," he told *The New York Times* flatly. "I have heard rumors of irregularities on quiz shows, but I never have heard any proof. Most of the shows are absolutely on the up-and-up."

Hank Bloomgarden, another *Twenty-One* contestant, backed up Van Doren. Those "warm-up" sessions about which there were such rumors, Bloomgarden said, were held only to see that the lighting and acoustics were right and "to acclimatize new contestants to the program."

The whole atmosphere of the television industry from top management, through active producers, down to winning contestants, was one of bland reassurance. This mask had hardly been donned on the front pages of the nation's press when it began to slip. The first slip was caused by Herbert Stempel, the star of *Twenty-One* until he was beaten by Van Doren. Stempel gave the New York *World-Telegram and Sun* an affidavit in which he asserted his defeat by Van Doren had been a put-up job. He had been ordered to lose, he said—and he had followed orders on the program of December 5, 1956.

With the publication of Stempel's story, fuss and fury became unconfined. Barry and Enright, the producers of *Twenty-One*, promptly denied all and announced they were suing Stempel and the *World-Telegram and Sun* for libel. NBC announced it was "completely convinced of the integrity of *Twenty-One* and of the integrity of the producers, Barry & Enright." Parenthetically, it should be noted that NBC had a special stake in *Twenty-One*. In May, 1957, it had purchased the hot property from Barry and Enright for $2 million. NBC needed time to get those millions back, and now, just fifteen months later, it was faced with the prospect it might have purchased tainted goods. Its perturbation was understandable.

Enter District Attorney

Whenever a fat sum like $2 million is at stake, the in-fighting gets vicious. NBC and Barry and Enright lost no time training their heavy batteries on Stempel. Dan Enright disclosed that Stempel, who had won $49,000 on *Twenty-One* before being counted out, had come to his office on March 1, 1957, and threatened to kick up a public scandal by charging he had been given questions on the show. Stempel wanted $50,000 as the price of

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silence. Unknown to Stempel, the entire conversation had been tape-recorded, and Enright played the tape for the press. On March 7, in a return bout, Enright said, Stempel had signed a statement denying he had ever been given questions on the show; the *quid pro quo* for this denial, according to Stempel, was the promise of a job on the producing staff of *Tic Tac Dough*, another Barry and Enright enterprise. But once Stempel had put his signature to the statement of denial, the job prospect evaporated.

Though Stempel came out of this first round badly spattered, his charges had been too explicit to be ignored. District Attorney Frank S. Hogan started an investigation in New York. So did the Special Committee on Legislative Oversight, headed by Rep. Oren Harris in Washington.

Hogan's inquiry was the first to document the quiz-show fraud. Some 200 witnesses were called before the New York County grand jury. One of them, Richard Snodgrass, a former contestant on *Twenty-One*, met the press after he testified and exhibited three unopened, registered letters he had mailed himself in advance of the programs on which he had appeared. The letters, he said, contained the answers to questions he had been asked.

Great was the shock. NBC, in tones reminiscent of GE in the electrical price-rigging affair, protested: "This comes as a complete surprise to us." Barry and Enright, though relieved by NBC as producers, insisted "our absolute integrity will be clearly and finally established." Charles Van Doren testified and subsequently, repeating what he had told the grand jury, insisted to reporters that he had not been given questions or answers before appearing on *Twenty-One*. Charges made by others, he said, caused him "surprise and disbelief."

The pretense, however, was getting harder to maintain. On November 7, 1958, Albert Freedman, who had been in direct charge of *Twenty-One* under Barry and Enright, was indicted for perjury for having falsely denied to the grand jury that he had given contestants questions in advance. The grand jury subsequently filed a 12,000-word presentment, a document that, in an unprecedented action, was bottled up by the presiding judge. Though the public wasn't permitted to know what was in this official finding, District Attorney Hogan gave a clear hint when he said in an angry statement that there had been "a national fraud whereby television quiz shows have been constantly misrepresented to millions of citizens as honest tests of the contestants' knowledge and skill." For almost a year, this statement was the only indication of what had really happened. Then on October 6, 1959, the Harris committee in Washington opened its hearings, and the public was treated to the full exposure, not of just the mechanics of quiz-show rigging, but of the prevalent morality of our time.

Herbert Stempel—he who had taken the dive for Charles Van Doren—described in detail how Dan Enright, the protesting purist, had come to his home in the fall of 1956 and had coached him on his role in the fraud. Enright, he said, had brought a bunch of cards with him and used these in asking him questions. He testified:

> *I managed to answer the bulk of the questions and those which I did not know, he helped me on and supplied the answers. After having done this, he very, very bluntly sat back and said with a smile, "How would you like to win $25,000?" I said to him, "Who wouldn't?"*

Enright coached Stempel, Stempel testified, on the fine points of acting:

> *He showed me how to bite my lip to show extreme tension. How to mop my brow. He told me specifically not to smear my brow, but rather to pat for optimum effect, as that created a more tense atmosphere. He told me how to breathe heavily into the microphone and sigh. . . . He taught me how to stutter and say in a very plaintive voice: "I will take nine, nine points."*

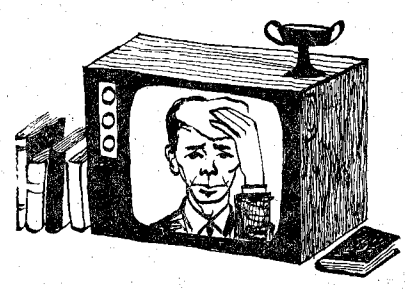
Stempel became such a skilled actor that for seven weeks the riggers of *Twenty-One* were content with him as champion. But then, on Tuesday, December 4, 1956, Dan Enright told him that he was to be "defeated" by Van Doren the next evening. Even the questions he was to "miss" were picked out. Stempel, at the time, had $69,500 to his credit; he was to "lose" $20,000 of this before going down in defeat. All the next day, Stempel said, at almost half-hour intervals, NBC kept running spot announcements, asking, "Will Herb Stempel crack the $100,000 mark tonight?"

All the time, said Stempel, "I was sitting home and saying very, very bluntly, 'No, he is not going to crack the $100,000 mark, because he is going to take a dive tonight.'"

And take the dive, he did.

The Final Act

Stempel's story, told under oath, in the full glare of nationwide publicity, prepared the way for the final act in the Van Doren drama. The most famous alumnus of the quiz programs, who had been elevated by NBC into a $50,000-a-year job, was subpoenaed to tell his version. For a couple of days, he disappeared completely, and headlines were rife with agitated speculation about what might have happened to him. But then Van Doren returned; he took the witness stand; and the story he told now, under



oath, at long last, proved to be the complete opposite of the stories he had told previously.

His performance on *Twenty-One* had been charted along the lines of fraud before he ever stepped before the cameras, Van Doren acknowledged. Right from the first, Albert Freedman, acting under the authority of Enright, had told him how it was to be.

> *He told me that Herbert Stempel, the current champion, was an unbeatable contestant because he knew too much* [Van Doren testified]. *He said that Stempel was unpopular, and was defeating opponents right and left to the detriment of the program. He asked me if, as a favor to him, I would agree to make an arrangement whereby I would tie Stempel and thus increase the entertainment value of the program.*
>
> *I asked him to let me go on the program honestly, without receiving help. He said that was impossible. . . . He also told me that the show was merely entertainment and that giving help to quiz contestants was a common practice and merely a part of show business. . . . Freedman guaranteed me $1,000 if I would appear for one night. . . . I was sick at heart. Yet the fact*

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is that I unfortunately agreed, after some time, to his proposal.

I met him next at his office, where he explained how the program would be controlled. He told me the questions I was to be asked, and then asked me if I could answer them. Many of them I could. But he was dissatisfied with my answers. They were not "entertaining" enough. He instructed me how to answer the questions: to pause before certain of the answers, to skip certain parts and return to them, to hesitate and build up suspense, and so forth. On this first occasion and on several subsequent ones he gave me a script to memorize, and before the program he took back the script and rehearsed me in my part.

Van Doren, it was clear, was an actor, not a knowledgeable contestant. Once hooked in the fraud, however, he contended, he had no choice but to continue. He defeated Stempel; for the next three months, he reigned as the champion of all the quiz-show stars. Several times, he said, he begged Freedman to release him from the bargain, but he had become such a personable champion it was difficult to set up just the right set of circumstances for his dethronement. Freedman, he said, told him that "I had to be defeated in a dramatic manner." Finally, the drama was concocted. Van Doren was to lose, after playing a series of tie games, to Mrs. Vivienne Nearing, a charming lawyer. When told he was to lose, Van Doren testified: "I said: 'Thank God.' "

'Mea Culpa'

Such was Van Doren's story. It was told, not simply and straightforwardly, but with much weeping and wailing and beating of the breast. He had come to realize, he said, that he had made "millions of friends" by his television performances; he had come to realize that he could not let them down; and, just at the crucial moment, when he was wrestling with conscience on the very brink of decision, a letter had come to him—a letter from a woman he did not even know, urging him to tell the simple truth, whatever it might be. "Suddenly I knew she was right," he said. And so he had decided to make his statement because of his "millions of friends" and in the hope that "my being here will serve them well and lastingly." Members of the Congressional committee who heard him were almost in tears; they accepted his confession with almost humble gratitude and lauded him for his candor and his courage; and so, having performed well before his last great audience, Charles Van Doren walked out of the hearing room, once more almost a national hero.

There was, it seemed, in all America—in the hearing room, in the press, among the general public—just one raucous voice. It belonged to William V. Shannon, the columnist of the *New York Post.* Shannon pointed out acidly that, in the first place, "no one has 'millions' of friends" and, in the second place, "much more offensively, Van Doren did not appear before the Harris committee because he hoped 'my being here will serve them well and lastingly.' He appeared because he was handed a legally binding subpoena and had no choice under the law except to appear. He made a statement because he wanted to put himself in the best possible light. It was a self-serving act and, as such, entirely legitimate. But let's cut out the claptrap about his doing it for his fans." For Shannon, Van Doren's closing line topped all. Van Doren was describing how he had broken the news to his lawyer that he had decided to spill the whole story. "He has been very worried about my health," Van Doren testified. ". . . He was happy. . . . He said: 'God bless you.' " To which Shannon commented: "Dim the lights. Music, Maestro, please." Shannon's final verdict was that he could not care less whether Van Doren had made $10 or $129,000; he did not think Van Doren should be severely punished—"but dignity, self-respect, restraint and detachment are civilized values we should cherish. Van Doren affronted those values as much yesterday as he ever did on *Twenty-One.*"

Once Charles Van Doren's epic had been placed in the record, the Harris committee continued to collect the first-person stories of contestants who had not been able to resist the raking in of rigged money. Some contestants, it is true, had exhibited signs of tender conscience; but even these, in the end, had found it impossible to say "No." Take the case of Richard Jackman, who had appeared on *Twenty-One* on October 3, 1956. He won $24,500, but he was so disgusted at the fraud—"I was just sick about the whole business"—that he told Dan Enright he wouldn't return. Enright urged him to think it over, promised him he had a great future and could earn enough to give him $100 a week for life; and Jackman flew to Buffalo to confer with his mother. They agreed he shouldn't accept a dirty dime, he said, and he returned and told Enright so. But Enright insisted the money was rightfully his, and Jackman, resistance to money gradually giving way, finally consented to accept $15,000. "That was for the evening's sacrifice," he told the Harris committee. The Congressmen were quite impressed by Jackman's nobility in turning his back on $9,500. What they didn't know, as Meyer Weinberg has pointed out in *TV in America, the Morality of Hard Cash,* was that the upright Jackman actually had filed suit for the additional $9,500—and actually had collected it three months before his appearance before the committee. As Weinberg comments: "Even the market for righteousness was rigged!"

And CBS, Too

The pattern seen so clearly on NBC's *Twenty-One* was identical with the pattern that existed on CBS's two top quiz shows, *The $64,000 Question* and *The $64,000 Challenge.* On the latter show, Patty Duke, child actress, age eleven, was initiated into the intricacies of the fix. Patty was briefed, given the questions and answers she was to be asked on the show, and ultimately was rewarded with winnings of $32,000. Congressmen became quite aroused at the spectacle of a child being instructed at so early an age in the arts of chicanery. They asked John Ross, the personal manager of Patty Duke, if he thought "it is healthy for . . . young children [to get] into situations like this where they are taught to cheat and lie for money." Ross said humbly: "No, sir." But he admitted he had never done anything about it. He conceded that the more Patty made the more he made, and when asked if this might be the reason for his conduct, he acknowledged, "It might be, sir."

Even a minister, it developed, was not impervious to the allure of tainted money. The Rev. Charles E. Jackson, Jr., of Tennessee, twice was a contestant on the *Question,* posing as an expert on great love

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stories. Each time he was given questions in advance—the same questions he was asked on the show. He won $16,000, was told to quit—and did. Nothing about this performance seems greatly to have disturbed the Rev. Jackson's sensibilities; it remained for an experience that was less happy, financially, to arouse him to indignation. In September, 1957, he was invited to appear on *The $64,000 Challenge*. Once more, he received an advance screening. During it, he was asked a question that he did not know about an obscure nineteenth-century poem written by Thomas Hood. On the show, the Rev. Jackson's opponent was asked the Thomas Hood question; she didn't know it; and, under the rules, this ended the game for both of them. They each won $4,000, but Mr. Jackson, finding that his opponent had not been briefed on the Thomas Hood question, was angry. "I feel I was gypped; I could have gone much further," he told the Harris committee. No outrage being quite so keen as the outrage of a man deprived of money, Mr. Jackson wired denunciations of the *Challenge* to *Time*, *The New York Times* and the *Nashville Tennessean*; but none of them cared to touch the story.

Solitary Hero

In the entire history of the quiz shows, just one person apparently had the fortitude to turn down cash. He was Arthur Cohn, Jr., a New York car-card advertising salesman, who appeared on the *Challenge* on March 23, 1958. Cohn's opponent had been favored with a very thorough, preliminary briefing; Cohn had not, and naturally Cohn lost. He was still to receive a consolation prize of $250, but he refused to take it. The producers insisted it "would upset their bookkeeping" if he persisted in being so stubborn, and so Cohn finally let them send a $250 check to the National Society for Crippled Children. But he accepted no money himself, and he distributed among his friends an irate letter describing exactly what had happened.

Cohn was a great worry to everybody. The *Question* and the *Challenge* were both sponsored by Revlon, Inc., the cosmetics manufacturer, and Revlon's sales were soaring astronomically on the wings of the two shows' popularity. Testimony before the Harris committee showed that Revlon executives sat in on regular weekly conferences at which the status of the shows was discussed and the question was debated whether a contestant was interesting enough to be allowed to continue contesting. Though Revlon executives, just as the executives of NBC and CBS, were to deny vehemently that they had any knowledge of the rigging, it seems hardly credible that they could have had such close contact with the mechanics of the show and remained in complete ignorance. In addition, when Arthur Cohn threatened to kick up trouble, he was invited to come to the Revlon office and talk things over with George Abrams, then a Revlon executive, and William Mandel, the Revlon advertising manager. Cohn went.

Abrams himself informed Charles Revson, president of Revlon, of exactly what had happened. Everybody, it appears, was quite upset. Steve Carlin, the executive producer of the two shows—he of the *Big Surprise* mystery — was invited to explain and did. Carlin himself admitted to the Harris committee that he was not exactly "candid"; and according to Revlon, he explained that the repeating of "warm-up" questions on the show on which Cohn had appeared had been a sheer accident, a mistake that would not happen again. Revlon, apparently with a sigh of relief, accepted the explanation. Obviously, everybody was making so much money that nobody wanted to think of killing the goose that was laying such a golden egg.

Expiation?

The attempt to avoid such slaughter led, however, not to just subterfuges of various degrees of shadiness, but inevitably, in the long run, to outright perjury. Once committed to the quiz-show fraud, once their reputations and livelihoods were at stake, contestants like Charles Van Doren and Mrs. Vivienne Nearing found it impossible to tell the ugly truth. Even when called before the New York County grand jury, they had lied in explicitly denying that they had participated in any rigging. Not until the dam broke in the Congressional hearings, not until evasion was no longer possible, did the truth come out.

The result was that District Attorney Hogan, submitting the new evidence to a grand jury, secured twenty perjury indictments. Van Doren and Mrs. Nearing, Hank Bloomgarden, who had won $98,000, and Elfrida Van Nardroff, who had collected $237,500, were among those indicted; all, without exception, pleaded guilty and threw themselves upon the mercy of the court. All, without exception, received mercy—nothing worse than stiff lectures and suspended sentences.

Now perjury, the deliberate lying to a grand jury, is no mere peccadillo of a crime. Regardless of the morals of the TV quiz fixes, of the lure of big money for persons who had always, for the most part, had to struggle for a living, there can be no real excuse or justification for perjury. Yet the attitude of court and public was almost a complaisant one. Everyone realized, of course, that the big advertisers who had sponsored the shows, the executives of the great television networks that had run them and had persisted in their blindness—these untouchables were not going to suffer. Only the vulnerable, smaller fry were going to have to pay the forfeit, and so the mood was not to punish, but to pity and exculpate. Typical was the speech of Justice Edward F. Breslin in forgiving the repentant Charles Van Doren. "I see in your eyes, as I've seen in the eyes of others who have pleaded in this investigation, how humiliated and contrite you are and they were," the justice said. "You are entitled to a chance."

And so sentence on Van Doren was suspended; the final act of the rite of expiation was performed.

The most shocking thing about the quiz-show scandal was not that it happened but that after it happened the great majority of the American people could not see anything particularly wrong about it. Public surveys revealed that the great majority of the people, if given the chance to garner some easy money in a television fix, would grab the opportunity. In one college class, the question was asked whether the class members would continue to buy the products of the firms that had engaged in the TV quiz chicanery. A large percentage of the class agreed that they would still buy the products. As one editorialist commented, "The attitude seems to be, 'So the quiz shows are fixed, so what?' "

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PART X Silent Partners of Billie Sol Estes

It would seem that, in our society, Ben Franklin's maxim, "A penny saved is a penny earned," has been replaced by millionaire Clint Murchison's only-half-joking remark, "A man is worth twice what he owes." Billie Sol Estes was the poor farm boy who adopted the Murchison credo as his very own. No matter how much money he amassed, it was never enough because success to him meant just one thing—the Murchisons—and he could never be content until he possessed as many millions as they did. Toward this eminence he struggled, not by trying to be worth twice what he owed, but several thousand times what he owed; and for a time he kept the illusion real with three Cadillacs, three private airplanes and a $150,000 mansion with a fifty-foot living room, at one end of which a waterfall came cascading into a palm garden.

Such were the gaudy trappings of success produced by an empire built on fraud, an empire made possible only because, from the bottom up and the top down, this is the world of the manipulators, of the fast-buck artists, each trying to short-change the other. It was a competition in which Billie Sol Estes excelled.

Billie Sol (it's pronounced "soul") was born in 1925 on a farm three miles northwest of Clyde, a dusty hamlet set in the wide, sandy, sunbaked, desolate plain of West Texas. The second child in a family of six, Billie Sol went to a nearby one-room school and did his share of hard work tending sheep, cattle and pigs, and laboring in the cotton and wheat fields. His parents were honest, hard-working, devout, attending services of the Church of Christ every Sunday. Some of this strict religious training left its mark on Billie Sol, for in maturity the unscrupulous manipulator was to parade a kind of fanatic religiosity. He became a Church of Christ lay preacher; he didn't drink or smoke, looked on dancing as sinful, and wouldn't let boys and girls go swimming together in the same swimming pool.

It seems to have escaped general notice, but Billie Sol Estes' character and career so paralleled those of P. T. Barnum, the nineteenth-century's Prince of Humbug, that it's almost enough to make one believe in reincarnation. Both Barnum and Estes were born in small, rural communities; both, in youth, knew poverty and hard work. In both there was a deeply religious strain that drove them to lay preaching and enabled them to pose as saints on Sundays and practice as pirates the other six days of the week. Both were country boys who took an unholy glee in making yokels out of city slickers, and both operated on the theory that there's another sucker born every minute and the devil take the hindmost. Furthermore, both were precocious; both showed, quite early in life, precisely what might be expected of them later.

He Had a Little Lamb

In Estes' case, this boyhood demonstration centered about the story of the ewe lamb. When he was a mere ten years old, his parents gave him the beribboned ewe as a Christmas present. Billie Sol cared for her, reared her, and when she grew up, he sheared her, sold the wool, reared and bought more lambs—and soon had a flock of sheep. He then traded the sheep for hogs, the hogs for cattle, and by the time he was fourteen, he was the proprietor of a respectable herd. Possibly it was this experience of multiplying one ewe lamb into a herd of cattle that gave rise in later years to one of Estes' favorite sayings: "You can shear a sheep every year; you can't skin him but once."

Garnishing the tale with such reflections, Billie Sol Estes, during his career as successful poseur to millions, never tired of orating before captive audiences about his boyhood experience with the ewe lamb. He usually coupled this with a call upon his audience to exercise "vision"—the kind of vision, of course, that he had shown as a boy in making that ewe lamb grow into a whole herd of cattle. He became so repetitious and so insufferably, righteously boring on the subject that one leathery old West Texas rancher whose patience had been exhausted was overheard once to remark: "Wouldn't you think he'd give some of the credit to the ram?"

The first manipulative ten-strike was pulled off by the West Texas wheeler-dealer while he was still a student in high school. Estes discovered (just how a high school boy should discover such things remains one of the mysteries of personality) that the Commodity Credit Corporation was selling wheat in bulk for less than the going market rate around Clyde. This meant that any dealer who could keep his distribution costs down could make a profit. Filled by this vision of dancing dollar signs, young Estes persuaded a friendly banker to lend him $3,500 and bought a carload of government wheat. He then used the boxcar for both warehouse and store, advertising cheap wheat to be delivered at the railroad siding to all comers on a cash-and-carry basis. The West Texas farmers, smelling a bargain, came and carried. Estes recruited a crew of his fellow high school students, and they shoveled the grain into buckets, baskets, anything that would cart it away. Profiting handsomely, Estes bought more carloads of wheat, keeping his "wheat deal" going into 1943, by which time he had disposed of fourteen carloads.

The Smell of Money

World War II was at its height and Estes normally would have been draft bait. But he had physical handicaps — bad eyesight and one leg was shorter than the other. Rejected by the services, he finally got into the merchant marine in 1945, just as the war was building to its climax. He served as a wiper and mess attendant on ships plying the Atlantic, but naturally it didn't take Billie Sol's built-in radar long to detect opportunities for making money. War-starved Europe was eager for all kinds of American goods, from cigarettes and candy bars to mink stoles, and Billie Sol, on his trips to New York, didn't neglect to load up on wares that could be easily transported, smuggled into France and sold at a handsome profit. American postage stamps were the going currency for such traffic in those days, and when Billie Sol Estes finally left the merchant marine and returned to Clyde, his pockets were bulging with some $700 worth of stamps.

The alkali dust had hardly settled on his boots before Billie Sol, the farmer home from the seas, began to wheel and deal in a man-

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ner that ultimately was to make an entire nation gasp. His first gambit involved housing. The construction-starved war years had resulted in great housing shortages for America's burgeoning population; at the same time, with the coming of peace, the government had on its hands a lot of surplus barracks for which the now drying-up military camps had no use. Billie Sol quickly decided there was a fortune to be made putting need and surplus together. He began to bid on military barracks in West Texas, New Mexico, California, Washington and Arkansas.

Operation Housing

There are indications that, even this early, he had discovered the secret of how to win friends and influence officials, for competitors later recalled that it was "damned near impossible" to bid successfully on any barracks that Billie Sol wanted. He always seemed to win, even when his bid was as low as $35. Having, for such a pittance, become the owner of a barracks, Billie Sol would chain-saw it into sections, board up the open ends, and dispose of it as separate housing to eager applicants. Purchasers desperate for homes sometimes would pay as much as $3,000 to $4,000 for such shacklike accommodations, yielding Billie Sol a fantastic profit.

He went into cotton farming in the Texas Panhandle, developed a sideline selling feed grain, and then, finally, in early 1951, carrying a battered old brief case and wearing rumpled, dust-streaked, country-boy clothes, he wandered into the West Texas town of Pecos 220 miles from Clyde. He never told anybody what he was looking for, but for some days he wandered casually about town, gabbing with gas-station attendants, waitresses and truck drivers, and so getting the feel of the place. Whatever the mystic symbol was that Estes sought, he apparently found it in Pecos, for he decided to settle down there. Soon he was asking for the name of "an honest real-estate broker," and soon he was purchasing from the honest broker "a section," 640 acres of land, on which he said he was going to farm and raise cotton. On the tract he bought was a shacklike structure, flung together with wood from icebox crates coated with stucco and set above an abandoned Army swimming pool that served as a cellar. Into this home Billie Sol Estes moved his wife—his former high school sweetheart, Patsy Howe—and the first two of the five children that were to be born to them.

Pecos had no intimation at the time that, within a few years, the shacklike home was to be transformed into a $150,000 mansion, complete with palm garden and waterfall in its living room, but it didn't take the town long to become amazed at how fast Billie Sol Estes could run from a seemingly standing start. For hardly had Billie Sol settled into residence above the old swimming pool before the manipulator in him began to manipulate. He discovered that the Agriculture Department, to encourage the expansion of grain-storage facilities, was offering financing at 2 per cent for the erection of prefabricated buildings. Billie Sol, reading the fine print in the government regulations, found there was nothing that said specifically that the prefabs *had* to be used to store grain, and so he was soon wheeling and dealing in prefabricated structures, selling them for garages, airplane hangars, housing for Mexican laborers. His customers were farmers eager to do business with him after he had shown them just how they could take advantage of the government's 2 per cent money.

Splash in Pecos

No one knows just how much Billie Sol amassed from this venture and from all the other deals with which he was incessantly occupied. *Fortune*, which has done the most extensive financial analysis of his rise and fall, estimates that he had accumulated about $28,000 when he first came to Pecos in early 1951. His own balance sheets, which in the light of events are subject to deep suspicion, put his net worth by December, 1951, at $176,197.05. Estes arrived at this total by putting a value of $128,000 on his 640 acres of land; but he also listed a tourist court valued at $37,000 and eleven tractors worth $20,000. Just two years later, in December, 1953, he was listing his net worth at $743,679.76, including among the assets 150 apartments in Port Neches, a half-interest in sixty apartments in Frederick, Okla., 1,440 acres of farmland in Reeves County and (most suspect of all his items) $271,560 worth of cotton on hand.

Not many men can increase their net worth by more than $500,000 in two years. Decidedly, Billie Sol Estes was making a tremendous splash in Pecos, but even at this early date there were some disquieting ripples on the water. For a man with so many fingers in so many pies, Billie Sol had the unenviable reputation around Pecos of never paying even the smallest bills. Perhaps it was this trait that made the Pecos Junior Chamber of Commerce balk in 1953 when it was suggested that it submit Billie Sol's name to the state organization as one of the five outstanding young men in Texas. The selection committee turned Billie Sol down flatly, but one of his partisans on the board, disregarding the vote, sent in Estes' name anyway. The result: he was picked as Texas' most outstanding young businessman, and just a few months later he was named, along with Governor Frank Clement, of Tennessee, one of the ten outstanding young men in the nation.

One Pecos resident, recalling the episode, remarked: "Billie Sol bragged to everybody that he was one of America's outstanding young men. But not many know he never was voted one of the outstanding young men of Pecos."

The designation, like so much about Billie Sol Estes, rested on a strictly phony base. It was significant—a point that was to be emphasized time and again in his later career—that he impressed most the people who knew him least, not those who knew him best.

The years immediately following his designation as one of the outstanding young businessmen of America were years of frantic Estes activity. He built himself to millionaire's status, and if he owed more millions than he possessed, this was not yet apparent to observing eyes. Estes' enterprises expanded all over the Texas landscape, and no one suspected that they had reached the sleight-of-hand stage where Estes used the resources and borrowing capacity of one enterprise to offset the losses of the others.

When the Estes bubble finally burst in the spring of 1962, it became almost a journalistic cliché to dub the wheeler-dealer from Pecos "a welfare-state Ponzi," because two phases of his operations involved the storing of government

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grain and the rigging of cotton allotments. The phrase had a delightful ring to a business and journalistic world in which the concept of the welfare state is anathema, but its glibness hid, if it did not deliberately ignore, the deeper implications of the Estes scandal.

No doubt about it, Estes was a Ponzi, but he was a Ponzi who had flourished because, at no level of American life that he had touched —and he had touched them all— was there any valid, operative ethical concept. Chief Justice Warren's point that a "sea of ethics" is the most vital facet of a law-abiding society was never better illustrated than in the career of Billie Sol; for the plain truth is that Estes pyramided his swindles into a multimillion-dollar debacle only by (1) taking advantage of the cupidity of millionaire businessmen out to amass more millions and not possessed of too many scruples about how they did it; (2) buying, bribing and wangling political and bureaucratic influence; and (3) taking virtually an entire countryside, possessed of the same cupidity as the businessmen, into his larcenous confidence.

Nonexistent Pumps

Business had the first chance to stop Billie Sol dead in his tracks —but business was interested, not in ethics, but in money.

The first lost opportunity came in 1959 and involved the matter of nonexistent irrigation pumps. The West Texas prairie that stretches far and wide on every side of Pecos looks like one of the most godforsaken areas in the universe. It is a wasteland of parched sand, scrawny mesquite and coarse buffalo grass, a desertlike wilderness where even a jack rabbit has to keep on the hop for survival. But the roll of the land to the far horizon is vast and awe-compelling like the roll of the sea; the sky above is limitless in the blue immensity of space; and at night the moon turns the prairie into one tremendous, mellow ocean of silver. It is the kind of country that breeds grandiose dreams in the minds of grandiose men. What is more, it is a deceptive country, not half so barren as it seems, for the *caliche* soil, if it can be irrigated and fertilized, becomes lush with cotton—and, fortunately for Pecos, there is plenty of water deep down under the prairie once wells have been sunk. But to get this water up and to get it flowing in irrigation ditches, a farmer needs powerful irrigation pumps.

There is some reason to suspect that Billie Sol Estes, with his knowledge of cotton, sensed this hidden bounty under the prairie when he first came to Pecos, that it was indeed the thing that lured him— this knowledge that prairie land worth $40 an acre could be turned into cotton land worth $300 an acre with the aid of irrigation. In any event, he quickly organized affairs so that he could take his profit from every step in the transformation process. He was one of the founders of the Pecos Growers Gas Co. in which, in 1958, he owned 1,600 shares worth about $5 a share. The gas company furnished the fuel to farmers to drive the irrigation pumps that brought up the water. The pumps themselves offered another opportunity of profit for Estes. He organized the Equipment Supply Co., which sold the pumps to the farmers and serviced them. Much of this business, of course, was done on credit, and Equipment Supply took mortgages from farmers on the pumps they had purchased. In August, 1958, however, Estes, needing cash to keep some of his various enterprises afloat, sold a lot of these mortgages to a finance company, Associates Investment, Inc.

So far, so good. On the surface it all seemed like perfectly legitimate business wheeling and dealing, the work of a smart operator with the vision to see his opportunities and profit from them. But in early 1959, Associates Investment discovered that farmers were falling into default on their mortgage payments. Almost before the finance company knew what was happening, it found it had on its hands some $600,000 worth of mortgage paper that was seriously in arrears. Investigating to determine why so many farmers had lapsed in their ability to pay at the same time, Associates Investment uncovered a real shocker—a huge number of irrigation pumps on which it held mortgage paper did not even exist.

Billie Sol's contract with Associates Investment made him personally responsible for the payment of any mortgage in default, but once he was faced with a $600,000 tab, he balked at honoring it. However, Associates' discovery that mortgage paper had been written on nonexistent pumps evidently put pressure on Estes, for he finally agreed to make good the losses, given time. Here, of course, the first great ethical question arose, the first ethical decision had to be made. Associates Investment had caught a daring swindler redhanded. What should it do with him? Should it expose him and turn him over to the law? Or should it protect him in the hope of getting its money back—and so leave him free to swindle others? There is no record that Associates Investment waged any life-and-death struggle with its conscience. It wanted its money back. And so it resolved, for its own protection, not to accept any more Estes paper, but it took no action against him.

Valuable Lesson

This decision left Billie Sol free to wheel and deal, and it is almost axiomatic that a swindler, protected and successful in his first swindle, will swindle more. In Billie Sol's case, as he afterwards acknowledged, he had been taught a lesson, but it wasn't quite the kind of lesson that might have been expected to register with a lay preacher of the Church of Christ. All Billie Sol had learned was that he would have to be more careful. He realized, as he later explained it, that he had made just two mistakes: he had operated under his own name, and the bulk of his mortgage paper had been concentrated with one finance company. The way to work the deal was to keep himself well hidden behind corporate fronts and to spread the paper around to avoid such quick suspicion. All that was needed was a new field in which to operate.

It did not take Billie Sol Estes long to find the opportunity. In addition to water, the West Texas prairie needs just one major ingredient to make it bloom with cotton — anhydrous ammonia. This liquid fertilizer is essential, and Billie Sol, early appreciating this, had formed the Farmers Co. and had begun, as early as 1956, to sell ammonia and insecticides. Before long, he had run up a bill of more than $500,000 with Agricultural Chemicals, Inc., a Murchison enterprise. Unable to pay, Billie Sol worked out a repayment schedule, postponing the evil day of reckoning into the future — a procedure that

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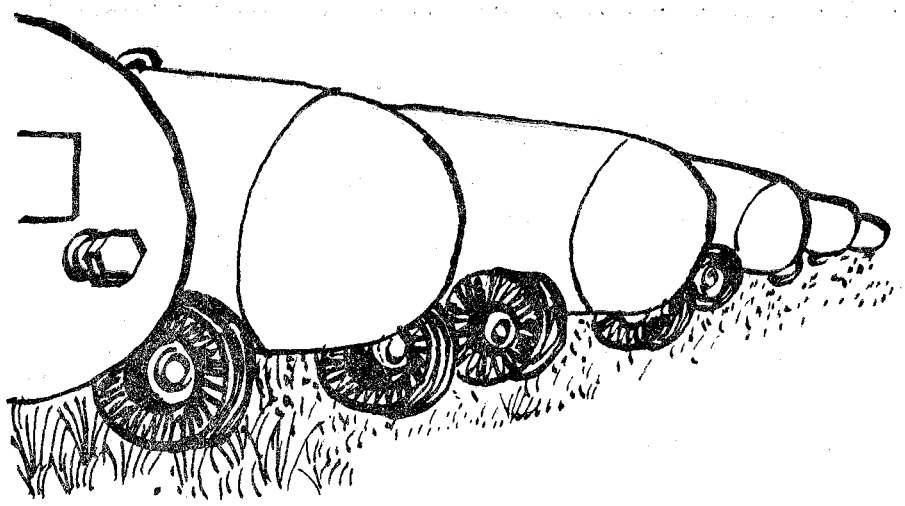

left Agricultural Chemicals still holding the bag for some $350,000 when Billie Sol's house of cards finally collapsed.

In hock to the Murchison interests for as much as their balance sheets would allow, Billie Sol quickly switched his affections and his business. The new major supplier with whom he dealt was Commercial Solvents, a New York firm, and it is still a matter of heated dispute just who led whom along the daisy trail of corporate dalliance. Only one thing seems clear: in 1958, just about the time his irrigation-pump fraud was reaching the point of exposure, Billie Sol decided to wheel and deal in anhydrous ammonia in a fashion to beat anything West Texas had ever seen.

Lloyd Stone, then a manager in Estes' ammonia-fertilizer business, later testified in a Texas inquiry about the precise manner in which Billie Sol explained to him his plans:

> *To use his term, we'd just surround them and then hit them. We can go in here and work real hard for fifteen years and build a business. But these people have all this business just in their hot little hands. If we try to get it this way, we're not going to be able to get it. If we hit them, it will all fly up in the air and when it falls down, then we'll grab our part of it.*

Did Billie Sol "hit them"? Stone was asked. "Yes, sir," he said. "And it flew."

The conversation, Estes' former manager made clear, took place in connection with the first cutthroat price slashing that Estes introduced with the intention of driving all competitors to the wall. Ammonia fertilizer was then selling in West Texas for $120 a ton. The wholesale price to distributors was $90 a ton. Billie Sol began selling retail to farmers at $80 a ton, taking a $10 loss on every ton he sold. Obviously, this was a madly ruinous way to do business; but Billie Sol's object, as he had told Stone, was to "hit them" so hard smaller competitors would be driven right to the brink of bankruptcy or beyond. By such tactics, he hoped to corner the entire ammonia fertilizer market in all West Texas, and once he had the corner, he would be able, of course, to establish his own prices. If it worked, the future held millions; but, in the meantime, the present represented only debt.

By the end of 1958, Estes was in debt to Commercial Solvents to the tune of $500,000, and Commercial Solvents didn't seem to be able to get any money out of him. Understandably, the big New York firm began to feel some twinges of concern, and it suggested to Estes that he come to Manhattan for a discussion of their mutual problem. Not at all loath, worried not in the slightest by that mere bagatelle of a half-million-dollar debt hanging over his head, Estes hopped into his private plane. He arrived bubbling with plans that included a major role for Commercial Solvents. "If you get into anybody far enough," he often said, "you've got yourself a partner." So he told Commercial Solvents, in effect: "Let's not worry about that mere $500,000 that I owe you. There's a fortune to be made, and I'm the man who can show you how. All I need is a little *further* backing."

This additional backing involved Commercial Solvents' willingness to lend him another $900,000. Some $550,000 would be applied to liquidation of Estes' old debt, another $125,000 would be used to buy more ammonia, and some $225,000 would be spent for the purchase of a grain-storage elevator in Plainview, Texas. Estes would pay off the entire debt over a five-year period. As security, he offered Commercial Solvents a lien on the grain-elevator's receipts. And, a point not to be overlooked, Estes, having re-established his credit with Commercial Solvents' money, would be permitted to buy more anhydrous ammonia from the company on credit.

Obviously, the man who sold refrigerators to Eskimos had nothing on Billie Sol Estes, but Commercial Solvents, a multi-million-dollar concern whose officers must have known they were dealing with a slippery customer, showed no repugnance. Instead, they accepted all of Estes' proposals. Why? The answer tells a lot about the ethics of big business.

Fortune, in its subsequent analysis of this complicated transaction, wrote that "Solvents seems to have known what it was doing." *Fortune's* breakdown of the figures showed that, though Billie Sol Estes ostensibly left the big supplier holding the bag for some $5.7 million, actually Solvents came out $620,000 ahead on the deal.

Two-Way Deal

A figure to keep in mind is the cost of the ammonia fertilizer to Solvents. The firm's production and shipping costs came to only $40 a ton, but the wholesale price in the industry (and no one yet seems to have wondered how this figure was arrived at by all of the supposedly competing fertilizer suppliers) was $90 a ton. In other words, Estes could run up quite a sizable debt to Solvents before Solvents really began to be hurt. The guarantee of grain-elevator receipts from the federal government promised to cover this base, and Estes, in his price-slashing war, would be carrying the ball for Solvents in West Texas; regardless of what ultimately happened to him, he would be opening up a vast new market for the big New York firm.

This, of course, is precisely what happened. When the Estes bubble burst, Commercial Solvents came out smelling like a rose as far as its financial ledgers went. It could claim a tax write-off of some $2.6 million on the bad Estes debt; it had received a heavy cash flow

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from the grain elevators; and so, financially, though it showed a whopping loss, it was actually ahead. But this wasn't its only gain. It took over the huge distributor-dealer network Estes had built up in his effort to corner the West Texas market, and so it had established itself in a strong position in a profitable territory. Actually, Commercial Solvents, instead of being Billie Sol Estes' major victim, stood to be a major beneficiary.

In the meantime, of course, a lot of honest fertilizer dealers had been ground to bits by the Estes steamroller that Commercial Solvents had made possible. The testimony of what happened to mere average people when they got in the way of Billie Sol (and the Commercial Solvents shadow behind him) was developed in illuminating detail at the subsequent Texas inquiry.

Typical was the testimony of James L. Winders, a former fertilizer dealer in Earth, Tex. He said he had been selling anhydrous ammonia for about three years when he got a telephone call from Billie Sol himself.

I heard that Mr. Estes was moving his anhydrous ammonia organization into the South Plains area [he testified]. *And in the conversation he told me if I did not buy anhydrous ammonia from him the next year he would put me out of business.*

Q. What did you respond to that?

A. Well, I asked him if he didn't think he should come up and talk with me about it. At that time, I didn't have a large business, but I didn't owe anything, and I thought the man ought to come and talk with me before he just took over my business. He said, "There's nothing to talk about. That's just the way it is."

Winders discovered that this was indeed "just the way" it was. He held out for several months, but Estes cut costs so far below the established wholesale price he couldn't compete. By the time he sold out his business to Estes in 1961, he was some $30,000 in debt.

Fred Simms was another dealer who was told to "line up" with Estes if he wanted to stay in business. He heeded the advice and was told to sell fertilizer at below cost; Estes, he was promised, would guarantee him a margin of $10 a ton for his own profit. Simms joined the Estes group, and soon he had farmers lining up at his office signing contracts for the cheap fertilizer he offered. This went on for three weeks, and then suddenly, without explanation, Simms was cut off from his source of less-than-cost fertilizer. "What happened?" he was asked. "Well, I still don't know what happened," he said.

His pleas to Estes to be reinstated in the Estes cartel were ignored. He couldn't fulfill the contracts he had signed with the farmers; he lost "between $15,000 or $20,000" on the deal; his business was ruined.

Even larger and well-established firms couldn't buck the ruthless Estes drive. One of Estes' first victims was the West Texas distributorship of Lester-Stone. In 1959, early in his price-cutting war, Estes bought out one of the partners, the Lloyd Stone who later became one of his fertilizer managers. Glenn R. Lester, the other partner, watched unhappily as Estes' price-slashing piled up a $300,000 loss for the concern. When Estes, still not satisfied that he had driven the price low enough to ruin all competitors in the area, decided on still one more cheap ammonia sale, Lester protested. "I said, 'No, I believe we have sold enough of that,' " he testified. "He said, 'Whether you like it or not, we're going to sell it.' "

Lester said Estes threatened to foreclose the partnership, a threat he could well carry out since Lester-Stone was now so completely in hock to the Estes enterprises for its fertilizer losses. But Estes gave Lester a choice. He would, he said, buy out Lester's share of the business for $25,000, about a third of what he had paid for Stone's share a year earlier. When Estes made the offer, Lester testified, he said: "Well, we'll just temper the rod with a little mercy here." Lester, helpless, had to accept the "mercy" deal.

Prohibitive Losses

By such tactics, Billie Sol Estes expanded his chain of distributors and dealers from ten in 1959 to seventy-eight in early 1962. Such rapid expansion had the look of phenomenal success to the outsider, but to an insider the cost, by any reasonable standards, had to be judged prohibitive. Estes had run some $1,750,000 in the red, and the end was not in sight. To keep plunging at this pace and to maintain at the same time the public posture of a millionaire rolling in ever greater millions took a fantastic amount of doing.

The doing involved Estes in two major procedures. First, in order to maintain his credit with Commercial Solvents, he had to expand his grain-elevator operation so that ever-increasing government fees for storage would underwrite the ever-increasing fertilizer deficits. But to build more elevators to store more grain took ever more millions. The money had to come from somewhere, and Estes, who had dabbled in fraud in the irrigation-pump deal, now refined the technique and began to float clouds of spurious mortgages on fertilizer tanks.

Let's consider separately for a minute the two wings of this endeavor. The storage of government grain inevitably involved Estes with the Department of Agriculture, gave him a more intimate personal interest in politics, and led to the purchasing or wangling of influence. Estes, from his earliest days as a purchaser of government barracks, had operated on the theory that he could grease his way by handing out presents—a car, expensive clothes, a thousand dollars in cash. Such bounties placed the recipients under obligation, at some future date, to return the favor. It was a technique of grass-roots, bureaucratic bribery; and, with it, Estes combined wheeling and dealing on the higher echelons where the dropping of an important name is a passport to good will.

A Good Democrat

A Democrat, Estes prated a liberal Democratic line, and on the wall of his $75,000 Pecos office building a huge panel displayed portraits of the leaders of the party, many of them affectionately autographed. This gallery was dominated by a huge, autographed portrait of President Kennedy, and it included the smiling faces of such Democratic eminents as Vice President Lyndon Johnson, former President Harry S. Truman, Adlai Stevenson, Senator John McClellan and Texas' own Senator Ralph Yarborough. It was not by accident that Estes came to possess such seeming evidence of high-level good will; he was an industrious worker and a lavish contributor.

In the 1956 campaign, for example, he became so carried away by enthusiasm that he made a complete fool of himself. He tried to persuade the president of a Pecos bank to help finance a wacky

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scheme that, Estes was convinced, would help Adlai Stevenson win the election. Estes planned to train large schools of parakeets to chirp, "I like Adlai." The parakeets would be released to fly over the nation's largest cities, chirping in unison. When the unenchanted banker tried to point out to Estes that it would be virtually impossible to teach large numbers of parakeets to chirp for Adlai, much less to chirp in unison, Estes became purple with rage and stamped out, accusing the banker of being anti-Stevenson.

On more practical levels, Estes made his influence felt. He threw a huge barbecue for Senator Yarborough, and he contributed some $7,500 in cash to Yarborough's campaign. For Estes, this was relative chicken feed. After the 1960 Presidential election, he liked to flash a gold-laminated card that attested he had contributed $100,000 to the Democratic Party treasury.

Nonpartisan Influence

Just how much influence Estes managed to cultivate—and on just how high a level—remains a matter of dispute. Common sense says that, one way or another, he amassed an unholy lot. His operations began under the Eisenhower administration; and, though he was a Democratic financial angel, he established lines of influence within the Eisenhower Republican Department of Agriculture. Indeed, his first contacts with the department were made at this time and carried over into the Kennedy Administration. Under Eisenhower, he was able to get government grain for storage in his first Plainview elevator, and under Kennedy, his operations expanded fantastically during 1961 and into 1962. During 1961, some 5.2 million bushels of grain were moved from Kansas into his Texas grain elevators; in 1961 and early 1962, Estes more than doubled his storage capacity and, a major point, kept his six warehouses 58.3 per cent full. At the end he was being paid as the caretaker of some $50 million worth of government grain.

This was ample to keep solvent his fertilizer deal with Commercial Solvents. In all, $6,959,000 in federal grain-storage payments found its way through his bank accounts and into the account of his huge New York supplier. But the strain of buying and maintaining more

elevators, of financing the ever-mounting millions of fertilizer indebtedness, of living on the lavish scale to which his pretensions entitled him—all of this led Billie Sol Estes into the crowning caper of his gaudy career. This was his well-calculated ammonia-fertilizer tank swindle.

Estes began to write and peddle mortgages on fertilizer tanks, just as he had earlier on irrigation pumps. In this instance, however, he devised a scheme so complicated it bears the stamp of genius. He had learned from his past unfortunate experience with Associates Investment never to expose himself by using his own name. So now he decided to use the name and credit of all the farmers in the West Texas area whose friendship and trust he had cultivated. His lure was what seemed like a foolproof, something-for-nothing proposition.

Billie Sol explained to the farmers that he needed to buy more fertilizer tanks for his expanding business and that he would like to make the purchases in their names and use their credit—for a handsome fee, of course. The deal, as Billie Sol outlined it, would work this way: the farmer would buy the fertilizer tank in his own name, assuming the heavy mortgage on it. But the farmer needn't worry about that. Billie Sol would provide the farmer with the down payment. From that point on, the farmer was protected, said Billie Sol. He himself would "lease" the fertilizer tank from the farmer for an amount that would exactly match the mortgage payments. The farmer didn't have to bother even looking at the tank; all he had to do was to sign a delivery slip showing that he had received it. For this, for use of his credit, Billie Sol would pay the farmer a fee of 10 per cent.

Why was Billie Sol doing all this? Well, he explained to the farmers, a multi-millionaire like himself, a man in his high tax bracket, got hit pretty hard by the government; he could save a lot of money in income taxes by "leasing" the tanks because he could charge off the rental at a faster pace than he could depreciation if he owned them. The West Texas farmers, not dwelling in Billie Sol's realm of high finance and having no way of knowing that Billie Sol's returns for 1959, 1960 and 1961 had showed only multi-million-dollar losses, reckoned that this just possibly might be so, and nobody of course has any scruples about gypping the federal government, whose income-tax schedules bear down hard on every man. Besides, how could the farmers lose? If Billie Sol bought $100,000 worth of tanks in a man's name, he paid the man $10,000 for the privilege. And $10,000 talks pretty loudly in any man's language.

Only, of course, Billie Sol Estes wasn't buying tanks; he was kiting paper mortgages. The tanks ostensibly were purchased from the Superior Manufacturing Co., of Amarillo, which had indeed manufactured the original tanks owned by Estes, and by the Lubbock Machine and Supply Co., of Lubbock, Tex. Superior Manufacturing, the major supplier, was run by Estes' associates, and Lubbock was subsequently to be identified in the courts as a "broker" for Estes' enterprises. Thus, though Estes' name and hand appeared nowhere in the deal, they were present at every stage of it. Even the down payment made to Superior wasn't legitimate, for Superior refunded this money to Estes by checks made out to the Texas Steel Co., a dummy corporation Estes had set up with an account in the First National Bank of Pecos.

Non-Secret Swindle

Estes cleaned up, of course, through the final stage of the process: the resale of the mortgages to finance companies. There was nothing on the paper surface of things to make the finance companies suspect a wrong deal. Superior could show photostats of the farmers' down-payment checks and photostats of delivery receipts the farmers had signed which ostensibly indicated that the tanks had been delivered. Convinced by such "factual" evidence, the finance companies would accept mortgages for 80 per cent of the tanks' presumed

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value and then they would discount this paper by 6 per cent. In other words, Superior would receive about 75 per cent of the tanks' presumed value; it would deduct a 10 per cent fee for its cooperation; and it would pass the remaining 65 per cent along to Estes through checks made out to his dummy, Texas Steel.

Obviously, Estes was paying an extortionist's rate on every dollar that he borrowed, but he was raking in millions in the process and evidently he wasn't worrying about full, final repayment. He was being impartial, too, spreading his mortgage business among a dozen finance companies. One of these was Associates Investment, which had blinked at Estes' first $600,000 irrigation-pump swindle in the hope of getting its money back. All unknowing, Associates now poured out $1,168,006.22 on the new Estes fertilizer-tank mortgages. But Associates was only a piker. The firms Estes really hooked were Walter E. Heller, $6,243,588.86; C.I.T., $5,240,318.27; and Pacific Finance, $3,264,859.16. In all, from a dozen finance companies, Estes obtained the grandiose, incredible total of $21,845,730.72.

At this point, it seems appropriate to pause and ask some questions. This was certainly one of the least-secret swindles of the century. Hundreds of farmers and scores of other persons, bankers and businessmen of all kinds, certainly knew about Estes' peculiar wheeling and dealing in fertilizer-tank mortgages. Some of them may have been deceived into believing the entire deal was as legitimate as Estes pictured it, but West Texas is not a country inhabited entirely by drooling innocents. Certainly, many must have suspected from the outset that Estes was pulling a fast one, and there is absolutely no question that many, many men had positive knowledge long before retribution finally caught up with him. This was because it was impossible for Estes to keep all of his maneuvers secret; to keep the fraud going, he had to practice fraud openly, practically in public view.

This public exercise in deviousness developed the instant the finance companies began checking up. Finding themselves holding millions of dollars in fertilizer-tank mortgages, they not unnaturally sent investigators into West Texas to make certain that the tanks existed. This led Estes into his final, frantic caper. Estes himself, when he was finally caught, candidly explained to an attorney for one of the victimized finance companies:

> *Imagine those sons of bitches* [referring to the finance companies that had supplied him with so many millions]. *I don't have much respect for them. They'd come down here, send two or three men. They'd first go to the farmer, and the farmer would say, "I don't have the tanks. I rented them. You go up to Estes Enterprises." When they'd get there, I'd say, "Just what tanks do you want to look at?" They would give the serial numbers. I'd say, "It's going to take some time to find out where they are; they're hauled around from farm to farm, you know." Then I'd just go back here to this room where the serial numbers were. I'd get the numbers we needed, get them flown to my ammonia dealer in the area, and tell him to put those numbers onto the tanks right away.*

Estes actually owned some 1,800 tanks (though he had sold mortgages on 30,000), and these were strategically placed so that a number of them would always be on hand in any given area. On some tanks the serial numbers could be screwed on; on others they had to be spot-welded. Then they would be painted with a quick-drying white-lead paint. Once this had been done, Estes' workmen would wet the number down and throw some dust on it to give it a properly scrubby effect. Within two or three hours from the time Estes got the first alarm, the tanks were ready for inspection. Subsequently, Estes noted:

> *If we couldn't do it that fast, we'd tell them that some of the tanks they wanted to see were in the county farthest away; that would give us some extra time. Then when they got there, we might tell them some other tanks they were looking for were maybe twenty-five miles from where they'd started out in the first place. Can you imagine those guys, driving all over West Texas? They'd have tanks coming out of their ears! One C.I.T. fellow inspected the same tank three different times, with three different serial numbers on it, and identified it as three separate tanks.*

A fraud practiced so brazenly, on such a scale, could not be a secret fraud. Estes' dealers, his airplane pilots, his workmen, his office help—all must have known just what was going on.

Popularity in Pecos

One of the more shocking features of the entire Billie Sol Estes case is that this unabashed acknowledgment of fraud on Estes' part does not seem to have shocked or disgusted anybody. The attitude of Pecos towards him has been captured best perhaps by Fletcher Knebel in an article in *Look*:

> *For almost two years, Billie Sol's scheme of getting rich by borrowing on anhydrous-ammonia fertilizer tanks was the talk of Pecos. Hundreds of people thought the scheme was fishy, and their doubts became the town's gossip. Everybody talked about it, but nobody did anything about it. Why?*
>
> *Some felt a natural reluctance to be a busybody. Mrs. Estelle Clinton, the Reeves County clerk, saw hundreds of chattel mortgages on fertilizer tanks being recorded in her office, but figured "it was none of my business." The Rev. W. S. Boyett, the Church of Christ evangelist whom Estes furnished with a Cadillac (later bought from Estes by him), says he had no suspicions of Estes: "I don't consider it my function to dig into the business of members of the congregation." Although stung once himself by Estes and highly dubious of some of his deals, Walter H. Holcombe, president of the Security State Bank, did nothing, because, he says, "It was none of my business." Estes, who was into everybody's business, was nobody's business.*
>
> *There was also a secret admiration for Billie Sol, which persists in many parts of Pecos today. Fenton Alley, a gnarled seventy-nine-year-old justice of the peace and former cowpuncher, put it thus: "I admire Estes in a way. He's a damn thief, but he's no petty thief. If you're gonna get caught stealing, don't go to stealin' chickens."*

With all the gossip, with all the aerial ferrying of serial numbers to distant points, with all the hasty spot-welding and painting to camouflage the fertilizer tanks, it seems a wonder some of the investigators for the finance companies didn't pick up the first faint whiff of suspicion. Of course, it's possible that some of them did. C.I.T., bitten by Estes for more than $5 million, evidently got wind of something, for it finally, almost a year before Estes' exposure, refused to finance any more fertilizer tanks. But it let the matter rest there, and there are numerous indications that Estes, the veteran favor-giver, had found reason to cultivate good will at various echelons of C.I.T. Testimony

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in the Texas inquiry showed that one C.I.T. credit man had accepted two $115 suits from an Estes associate; a vice president had received a Chevrolet from Billie Sol; and a field representative was being paid a $500-a-month "consulting fee" by Superior Manufacturing. After Billie Sol's exposure, the vice president and field representative resigned from their positions; but, virtually up to the time this happened, the mere mention of Billie Sol's name was enough to take all the eagerness out of any eager-beaver C.I.T. investigator.

A vivid example occurred in the spring of 1961, when the finance company sent sixteen investigators into West Texas to try to locate the fertilizer tanks on which it held mortgages. Thomas Bell, a Pecos area farmer, testified under questioning by Assistant Attorney General Jack Price, of Texas, how an investigator came to his farm:

Q. And you confirmed [to a C.I.T. investigator] that you did have a leasing arrangement with Billie Sol?

A. Yes, sir.

Q. And that you had never seen the equipment?

A. Yes.

Q. Did he appear satisfied? Did he go off then?

A. Yes, sir, I told him that I had the equipment leased to Mr. Estes. So he left very nice, and I haven't seen him since.

It is altogether possible that investigators might still be walking away and being "very nice" if it weren't for Billie Sol Estes himself. Billie Sol not only had to be a big shot; he had to be loved—he wanted status, office, the respect of his fellow citizens of Pecos. And this was something he couldn't buy. In 1960, this urge for eminent respectability led him to seek election as an elder of the Church of Christ. A strong faction among the 345 church members balked. They wrote letters saying that in their opinion Brother Estes was "not of good report" in the community. The resultant battle tore the church apart and became the talk of most of Pecos' 12,800 residents. Billie Sol fought the way he always fought—dirty. For example, he telephoned his lawyer and demanded the lawyer fire his secretary because she was one of the church dissidents. The lawyer obeyed, and the secretary was fired. By such tactics, Billie Sol won his way to status as a church elder, but he had not endeared himself to the sturdy church faction that had held he was "not of good report." They walked out and formed their own congregation.

The bitterness left over from this religious war had not subsided when Billie Sol, his drive for status still unappeased, decided in 1961 to run for election to the local school board. He was unopposed on the printed ballot, but at the last moment a write-in candidate entered the lists against him. Write-in candidates are usually hopelessly doomed, and so it was perhaps a significant indication of Billie Sol's lack of popularity in Pecos that, on this occasion, he was trounced.

Crowning Error

Billie Sol wasn't one to take kindly to such rejection. In this instance, he blamed his misfortune on the Pecos *Independent and Enterprise*, a semi-weekly newspaper founded in 1887. The *Independent* had ridiculed his anti-dancing and anti-mixed-swimming stands. Billie Sol, who prided himself on being a liberal, charged that he had been subjected to this journalistic attack because the paper's owners (two doctors, a dentist and a C.P.A.) were John Birchers. One of the owners, Dr. John Dunn, actually was a member of the Birch Society, but his partners were simply conservatives who did not happen to trust Billie Sol Estes. It did not matter. Estes, out of vengeance, set up his own newspaper, the Pecos *Daily News*, and he put the heat on his 400 employees not to buy goods from stores that advertised in the *Independent*.

This turned out to be the crowning error of Estes' career. A man needs a clean conscience and a clear record before he indulges in all-out war with a local newspaper, for it's a safe bet the newspaper knows more about him than he suspects. In Estes' case, Dr. John Dunn and the *Independent* knew a lot. One of Dunn's patients, a Pecos farmer, had given the doctor a full description of Estes' fertilizer-tank deals and their peculiar aspects. "Listen," he said, "you don't get something for nothing, and that's just what Billie Sol is offering."

Dr. Dunn and his medical partner on the controlling board of the *Independent*, Dr. Harlow Avery, were also the proprietors of a semi-monthly credit sheet published by the Retail Merchants Association. From this vantage point, they began to notice that dozens of chattel mortgages on fertilizer tanks, mortgages running into heavy figures, were being filed at the Reeves County Courthouse. Publication of these figures evidently disturbed Estes, for in early 1961 he got in touch with Sue Hodges, manager of the retail association, and asked her to discontinue printing information on the chattel mortgages in her bulletin. Mrs. Hodges reported to Dunn and Avery, who agreed to let Estes have his way, but decided to keep a careful eye on the fertilizer-tank transactions.

As the chattel mortgages mounted into the millions, the determined Dr. Dunn compiled a Billie Sol Estes dossier and set out to try to get someone to take action on it. Through Dan Smoot, the right-wing radio and television commentator, he brought the case to the attention of the FBI. FBI agents spent some time tracking down his leads, but the U.S. attorney in charge in the area, an Eisenhower appointee, didn't consider the case worthy of prosecution and it was dropped. Next, Dr. Dunn turned to Senator John G. Tower, the hard-Right Republican from Texas. He sent Tower a lengthy letter and supporting documentary evidence, urging a Senatorial investigation of Estes, but Tower did nothing. For a time, it almost seemed that Estes might defy all the odds on exposure. And this took a lot of defying, for in addition to Dr. Dunn, he was being pressed hard from another direction.

Cotton Gimmick

Billie Sol, the inveterate finagler, had discovered and made extensive use of another gimmick. The federal government, in connection with its price-support program, puts a limit on the cotton acreage a farmer may till. Acreage allotments, issued to individual farmers, are not transferable, but Billie Sol had found a way around the prohibition. Federal regulations provide that, if a farmer's land is condemned to build a new highway or a water reservoir, for example, he may transfer his allotment to any new farm he may purchase. Taking advantage of this special dispensation, Billie Sol had his agents hunt out dispossessed farmers in Texas, Oklahoma and Georgia. The farmers would enter into a phony con-

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tract with Billie Sol to "buy" acreage from him in Texas; he would promptly "lease" back from them the land they had just "bought"; and he would pay $50 an acre for the transfer of the farmer's cotton allotment to his own Texas acres. In this manner, Billie Sol began to wheel and deal in cotton allotments in early 1960 during the Eisenhower administration, and he stepped up his acquisition in 1961 until he had acquired allotments on 3,100 additional acres.

This mysterious ability of Billie Sol's to circumvent government regulations naturally aroused resentment among less-favored farmers in the Pecos area. The wife of one cotton farmer whose limited acres overlooked Estes' forever expanding holdings became so incensed she kept demanding "Washington" explain how Billie Sol could get away with it. Such rumbles finally attracted the attention of Henry Harvey Marshall, chief of production adjustment for the Agricultural Stabilization and Conservation Office in Texas and so the man in charge of cotton-acreage allotments in the state.

What happened next remains the most sinister mystery of the entire Billie Sol Estes saga. A. U. S. Senate committee was told last year that, in January, 1961, at a meeting of Texas' Agricultural Stabilization and Conservation Service Committee, Marshall produced "a legal document" proving Estes' cotton-land fraud. Marshall, a witness testified, declared he planned to forward the document to Washington because "the entire cotton program was being abused by Estes." Just how positive was Marshall's knowledge, just how potentially dangerous it might have been to Estes, remains a matter in some dispute, for Marshall did not survive to tell his own story. On June 3, 1961, his bullet-riddled body was found sprawled in the dirt beside his station wagon in a pasture on his own ranch eight miles outside Franklin, Tex.

The investigation of Marshall's violent demise was strictly limited. A coroner certified that Marshall had committed suicide; the sheriff closed out the probe. Not until the Estes empire had collapsed in scandal did officials take a long and sober second look. What they then discovered made Henry Harvey Marshall a definite candidate for the title of the hardest working and most unusual suicide in history:

Item No. 1: Marshall had been killed with a .22-caliber, bolt-action rifle. He had been shot five times in the abdomen. To accomplish the feat himself, he would have had to lever the gun five times and shoot himself five times — a deed of super-human determination.

Item No. 2: Marshall could never have done this because three of the five wounds were "incapacitating," and in the words of Col. Homer Garrison, Jr., chief of the Texas Rangers, to fire more shots after being so repeatedly incapacitated "would have been impossible."

Item No. 3: Marshall was banged up in a manner suggesting that, if he committed suicide, he must have given himself quite a beating first. He had a cut over his left eye, severe bruises on his hands and a serious brain injury.

Colonel Garrison concluded that Marshall undoubtedly had been murdered. But by whom? For what purpose? These questions have never been answered.

Johnson's Testimony

The fact that they have even been asked is attributable almost solely to the Pecos *Independent*. When no government agency would interest itself in Billie Sol Estes, Dunn and Avery decided to try the power of the press. They hired an investigator to check the records in a number of nearby county courthouses. They discovered that, on the same days, mortgages were being filed in different courthouses on fertilizer tanks bearing the same serial numbers. Obviously, either the tanks were being mortgaged more than once, or they simply didn't exist.

Oscar Griffin, Jr., who had been hired to edit the *Independent*, now carried the investigation one vital step further. He interviewed a farmer who, ironically, was named L. B. Johnson. Courthouse records showed that Johnson had taken out $93,600 in mortgages on 131 fertilizer tanks. When informed of this, Johnson was amazed. Billie Sol, he said, had propositioned him, but he had turned down the proposition. He had had no idea his credit had been used in any tank deal. Subsequently, in the Texas inquiry, Farmer Johnson testified about the manner in which Estes had practiced fraud and deceit, not on just the finance companies, but on *him*.

When Estes originally explained the deal to him, Johnson said, he had thought he might go along, and so he had signed the necessary papers in Estes' office. But—

I had a verbal agreement with him [Estes] which to me was just as good as a written statement.

Q. I see, he called you down to the office and he had you sign a bunch of papers?

A. Well, I signed them at 11 A.M. and I had a verbal agreement with him that I would call him back by 1 P.M. and let him know whether I wanted to go or not.

Q. Is that when you told him that you wanted to talk to your wife about it first?

A. That's right. I went home and discussed it with my wife a little bit. And then I called him back and told him I didn't want to go, that I didn't want any part of it — just count me out.

Johnson went back to Estes' office that afternoon and collected, so he thought, all of the papers he had signed. But Estes, unknown to him, had squirreled away one of the documents and later used this to file nearly $100,000 of fertilizer-tank mortgages in the name of the unsuspecting Farmer Johnson. Estes, in a case of compounded fraud, didn't even pay him his 10 per cent.

With Johnson's story in hand, with the detail on the double-dealing in tank mortgages established from the courthouse records, the *Independent* broke a series of articles on the wheeling and dealing of Billie Sol Estes. For Estes, this public exposure spelled doom.

Pacific Finance in Los Angeles, a firm that had bequeathed upon Estes more than $3 million, called the Dallas law firm of Irion, Cain, Cooke & Magee on the night of February 23, 1962. What about those articles in the *Independent*? Was Pacific Finance holding worthless paper? Frank Cain and M. R. Irion, of the law firm, discussed the problem with two officials of Pacific Finance. Cain advised: "You'd better send out every available man and hit the farmers all at the same time."

Pacific followed his advice. It set up headquarters in Amarillo and dispatched eighteen investigators to talk to farmers and find tanks. Within six hours, the investigating team reported that it had not been able to find any tanks with Pacific

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Finance serial numbers on them. And it was becoming hard to find farmers to question, too.

Estes, of course, had been warned of what was afoot, and he had engaged Hobert and Bert Nelson, of Lubbock, as legal counsel. Irion and Cain arranged a conference with Estes and the Nelsons in Lubbock on February 28. On the way, Cain stopped off in Amarillo and made some inquiries at the Superior Manufacturing plant. He discovered that Superior, even working around the clock on a three-shift basis, could produce only 800 tanks in a month. Yet the tank mortgages filed on its product in Reeves County alone during January, 1962, had run to 3,376 tanks. Anyway you looked at it, the colossal fraud Billie Sol Estes had been practicing was plain.

But were the finance company representatives who had discovered this so shocked that they ran at once to the law to jail Billie Sol as a thief? They were not. They were interested in just one thing, their money, and it is significant—a point that cannot be too strongly stressed—that had Billie Sol had any possible way of repaying them (as earlier he had worked out a deal with Associates Investment on the irrigation pumps) he might have remained free to this day to wheel and deal, to defraud and finagle, to bluster and intimidate and get law secretaries fired for not relishing him as a church elder.

Cain put the finance-company ethics of the case in plain language to Billie Sol in that February 28 conference in Lubbock. "I want you to know our main interest is in getting paid out," he said. "I want to know where the tanks are."

Estes smiled broadly, like a kid who has just pulled a delightful fast one. "There aren't any tanks," he said.

Cain grew red in the face and almost shouted: "Do you mean to tell me there are no tanks?"

Estes smiled more broadly still. "No," he said, "there are no tanks."

Cain then wanted to know how many finance companies were involved in the swindle. Estes calmly handed him a detailed list, which later proved to be quite accurate. The list named the dozen finance companies he had bilked and showed he was making monthly payments of $527,751.09 to keep afloat the incredible swindle of nearly $22 million. "You sure have made a damn fool out of some of the most brilliant financial men in the country," Cain told Estes, trying a little flattery. "What have you done with the money?" Estes ducked the question.

In a long discussion (and what, one wonders, would there be to discuss in a really ethical society?) Cain invited Estes to cooperate and "see if we can work this out." Estes agreed. He invited Cain to come out to Pecos and visit him. Then, as the meeting was breaking up, Estes dropped a remark that showed his ideas about the way he might appease Pacific Finance. "I've got two and a half million worth of contracts I haven't been able to peddle yet," he said. "I can peddle it pretty fast."

Irion, aghast, exploded once more in angry and significant terms. "*Don't you tell me anything about that!*" he shouted.

'Incredible Experience'

There could now be no question about the character of Billie Sol Estes, about the enormity of the fraud he had practiced, but still nobody rushed to the law to see justice done. Almost two weeks passed before, on March 13, Cain went to Pecos and spent three days visiting with Billie Sol in the mansion with the living-room palm garden and waterfall. Cain was startled to note that in the palm garden was a monkey in a cage. What, he asked Estes, was the monkey doing there? "You know why I have that monkey there?" Estes replied, laughing. "I want to keep reminding myself how goddam dumb those finance companies are."

Such was the beginning of what, for Cain, was an incredible experience. Estes, in his office with the autographed photographs of Presidents and high politicians, bragged hugely of his great influence. He was a member of the Department of Agriculture's Cotton Advisory Committee, he said; he had made nearly half a million dollars in 1961 from his cotton-growing scheme; he had money rolling in from grain storage. Sure, he could repay the finance companies.

The lawyer, half-convinced that Estes might find some way to pay his debts after all (and this was really all that mattered, wasn't it?), flew to Los Angeles and reported to Pacific Finance's president, Maxwell King. King decided it was "an industry problem" and asked Cain to call a meeting of all finance-company creditors. In discussing Estes' relations with Commercial Solvents, King was incredulous when Cain informed him that Maynard Wheeler, president of Commercial Solvents, was visiting Pecos that weekend. To prove the point, Cain called Estes on the telephone and confirmed it. Then he asked whether he could be present because, he said, "I need the cooperation of Solvents." Estes agreed and so there took place what remains one of the most disputed confrontations of the entire case.

Cain has repeatedly testified before the Texas court of inquiry and before Senate probers to details of the conversation with Estes and Wheeler that Wheeler emphatically denies. According to Cain, Estes, during Sunday morning breakfast, made these remarks in the presence of Wheeler:

"They [Commercial Solvents] want to put me in business in Brazil."

"You know, Mr. Wheeler has been just like a father to me; he put me in this ammonia business."

"They [Commercial Solvents] sent me $400,000 just a few days ago."

According to Cain, Wheeler contributed the thought that, in Switzerland, numbered bank accounts protect the depositor from annoyance and—"If Billie Sol gets too involved, we can always use him as a consultant in Switzerland." To which Billie Sol demurred, saying: "Well, I think Brazil will be better."

Cain also quoted Wheeler as saying: "We have established ourselves firmly in the ammonia market here, and we intend to keep that market. . . . Furthermore, if we have to, we can step in and take the place of Billie. . . . We can keep those grain-storage tanks full, too."

Wheeler admits that Commercial Solvents did send Billie Sol $400,000 on February 28 (the very day that Billie Sol in his lawyer's office was telling Cain and Irion, "There are no tanks") but he denied emphatically ever mentioning the Swiss banking system, ever discussing sending Billie Sol to Brazil, ever indicating to Cain that Billie Sol meant more to Commercial Solvents than just another fertilizer customer. Obviously, someone is lying, and this clash of sworn tes-

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timony has been referred to the Justice Department.

The Creditors Gather

The meeting of Estes' creditors took place in the board room of the Mercantile National Bank in Dallas on March 27 (a full month after Estes' original confession to Cain and Irion), and it was attended by thirty-three executives and attorneys of the victimized finance companies. Cain and Irion explained just how Estes had mulcted them of $22 million. Estes himself put in a brief appearance. According to *Fortune*, "He seemed, in turn, arrogant, disconsolate, and deflated. On the whole, he did not leave the financiers optimistic about their prospects of getting any money out of him." This appears to have been, even at this late date and in the full light of revelation, virtually the only consideration that weighed with the financial masterminds. Not until they were convinced that Estes could not pay did they decide to become righteous and turn to the law; but once they were so convinced, things happened swiftly. The very next day, the FBI arrested Estes on a charge of having transported false mortgages across state borders, and from that point on, the fat was in the fire.

Even months later, as this is written, the full story has not been told, but enough has been revealed to show graphically again, as has been shown so often in the past, how easy it is for an impressive phony with a big wad of cash (no matter how he got it) to buy himself influence. The reverberations have shaken the Kennedy Administration with its first big scandal.

Testimony showed that in September, 1961, Estes went into the men's wear department of the swank Neiman-Marcus store with two prominent officials from the U. S. Department of Agriculture. Assistant Secretary (for Agricultural Stabilization) James T. Ralph and Ralph's assistant, William E. Morris, picked out more than $1,000 worth of clothing which was billed to Estes. Subsequently, other ties between Estes and Morris were revealed, notably the fact that Morris' wife had been on Estes' payroll as "Washington columnist" for his paper in Pecos. Secretary of Agriculture Orville Freeman, acting more expeditiously than had the distinguished heads of the swindled finance companies, fired them both. Freeman also asked and got the resignation of Emory E. Jacobs, deputy administrator of the Commodity Stabilization Service, after it was disclosed that in October, 1961, Jacobs accompanied Estes into Neiman-Marcus and selected $1,433.20 worth of clothing, including a $245 suit and a $195 sports coat. After Jacobs made his selection, he and Estes went together into the fitting room, and when they came out, Jacobs paid his entire bill himself—with cash. Jacobs insisted afterwards, "I had my own money"; but his resignation seemed to be recognition of the fact that the public might find it hard to credit that a $16,500-a-year government official could be walking around with $1,433.20 in pocket money to pay for fancy duds.

Congressmen Involved

Nor was this the end. As the multiple Estes probes mushroomed, the exposed ties of the Pecos finagler multiplied. Assistant Secretary of Labor Jerry Holleman, former president of the Texas AFL-CIO, resigned after being forced to admit he had accepted a check for $1,000 from Billie Sol. Holleman's excuse was that his $20,000-a-year salary was inadequate to meet the social demands his Washington position imposed upon him and that he needed the $1,000 to help meet "living expenses." He said the gift from Estes was "personal" and that it had "no connection with any of Mr. Estes' interests"; but even Holleman, in quitting and going back to Texas, seemed to acknowledge that this might be hard for many persons to believe.

Not just the Agriculture Department but members of Congress, too, seemed to have been involved, one way or another, in the Estes web. Early in 1962, William Morris, of Neiman-Marcus shopping fame, wrote Estes a letter suggesting that Minnesota's Republican Congressman H. Carl Andersen, a member of the House subcommittee on agricultural appropriations, would be a "good Republican contact" and that it might be a "good investment" to help him out of a financial jam. Shortly thereafter, Morris took Andersen down to Pecos to talk to Estes. Subsequently, Estes gave Andersen money—totaling, according to various versions, anywhere from $4,000 to $5,500—for stock in an Andersen-owned coal mine. When the transaction came to light, Andersen insisted that Estes had been just making an ordinary business investment, but nobody could quite explain why, if that were so, Estes hadn't bothered to get any stock certificates from Congressman Andersen.

Among all of these multiple Estes contacts, it does not seem to have been quite established exactly who did precisely what for the man from Pecos. The mystery of individual responsibility and guilt may remain the final unresolved mystery of the Billie Sol Estes case, but there can be no doubt that the cumulative effect of Estes' multitudinous contacts was a mighty potent influence. It was an influence so strong, according to testimony, that the Agriculture Department fined Estes only $48,000 for some minor cotton over-planting and decided in January, 1962, not to revoke his spurious leases on 3,100 acres or to fine him further. It was an influence so strong that Estes, despite the phenomenal increase in his grain-storage business, successfully resisted any increase in his $700,000 bond—a procedure that might have led a bonding company to undertake a revealing audit. It was an influence so strong that, though he had been fined, though he had been accused of more serious derelictions, Estes was still appointed—just as he had bragged to Cain—a member of the department's Cotton Advisory Committee. It was influence so strong, in other words, that Estes, right up to the moment of his arrest, cut a wide and untouchable swath as a multimillionaire power to be reckoned with.

Arrest, of course, changed everything. The Agriculture Department rescinded Estes' allotments on the cotton-transfer acres; it fined him $554,000; it began, over the protests of his creditors, to move grain out of his warehouses. Multiple grand juries sat on the case; multiple inquiries were started. In Texas, a grand jury indicted Maynard Wheeler, president of Commercial Solvents, on charges of conspiring with Estes to corner the commercial fertilizer market; Wheeler insisted upon his innocence, called the charge ridiculous. Estes, faced with so many indictments and charges from so many different quarters,

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was relying on his lawyers and the Fifth Amendment against possible self-incrimination; he wasn't saying anything. And in Texas, farmers whose names were on mortgages for as much as $100,000 or more apiece, stared financial ruin full in the face if the courts held them responsible.

What the Billie Sol Estes case best and most clearly illustrates is the virtual drying up of that "sea of ethics" that Chief Justice Warren stressed as the prime requisite of a law-abiding society. Not only in the corporate world, but in the fuller life of a nation that has come to ape corporate standards, the only ethic that operated was the profit ethic. In a nation that could produce the General Electric-Westinghouse electrical conspiracy, Billie Sol Estes could seem to many almost admirable in his daring, his cleverness, his $22 million worth of fraudulent success. In Billie Sol Estes, the larceny of man outmatched the larceny of the corporation, and it says much about our times that quite a considerable number of persons were not just indifferent — they seemed positively inclined to cheer.

PART XI The Mores of a Carthage

The preceding pages present an appalling picture of a society operating, not in a sea of ethics, but in the morass of the jungle. The blindness to ethical standards is found at every level — in the proprietor, manager and working classes alike. Does this blindness rise from the bottom or percolate downward from the top? One could argue plausibly for the latter. It is, after all, the proprietor and manager classes that form the power elite of our society; and the conduct of the powerful sets its own pervasive standards.

Yet this is too facile an explanation. The truth perhaps lies not in any one segment of our social structure, but in the nature of our society as a whole and in the ethic on which it is based.

Today we live not in an individualistic society, but in a corporate collectivism; not in a world of free enterprise and free competition, but in a world of mass corporate structures and administered prices. We live not in a world in which man has individual, even heroic, stature and in which he can create his own ethical climate, but in a world in which he is increasingly subordinated, a creature dependent upon the technology and mass-power structure that technology has created.

Yet we profess to be governed in our thinking and actions by an eighteenth-century ethic that, in the twentieth century, has become an anachronism. We cling with the fanaticism of the religious bigot to the shibboleths of "free enterprise," "rugged individualism" and "laissez faire" when the substance of all three is no longer with us.

The traditional American ethic — essentially, the Protestant ethic — is dying with the society which gave it birth. This ethic was rooted in an economy of scarcity. In a society where "production could never meet need," Roger Shinn has reminded us, "decency called for restraint in consumption. The ethical tradition most influential in America emphasized the virtues of hard work and productive enterprise, of deferred enjoyment, of saving of resources and wealth, of sacrifice of some pleasures for higher goals, even of fundamental sacrifice."

But by 1950 the scientific-technological revolution was already beginning to turn our economy of scarcity into one of abundance. The effect on our traditional ethic was instantaneous — and noticeable. In 1956, *The Wall Street Journal* was already writing about the "shift from thrift." The same year, *Business Week* remarked, "Just past the midmark of the twentieth century, it looks as though all of our business forces are bent on getting everyone to borrow, spend, buy, waste, want." A business journal, paraphrasing Benjamin Franklin, noted about the same time: "A penny saved is just too bad." *Newsweek* remarked: "Never before have so many owed so much to so many. . . . Time has swept away the Puritan conception of immorality in debt and godliness in thrift." And Shinn wrote: "We can have cakes, cars, color television and a trip to Europe, all to be paid for tomorrow and the day after. Best of all, we can enjoy all this with good conscience . . . for the whole process is part of the Sacred American way."

"Borrow, spend, buy, waste, want": what better foundation for the racket society which, with such prodigious speed, is replacing the old? These are the injunctions followed by Billie Sol Estes. They are Holy Writ for the Organization Man, caught up in a collective power structure designed not to produce goods to satisfy wants, but to produce wants to satisfy production. They represent the "easy come — easy go" philosophy that turns cops into robbers, respected bank clerks into swindlers, highway engineers and politicians into grafters. In a social order basically controlled by massive power collectives, the only way "rugged individualism" can express itself is *against* the social order.

Seeking a Solution

As early as 1951, Robert S. Lynd, author of *Middletown*, the social study of an American community that has become a classic, saw the dilemma of our changing society in another context: the relation of our traditional ethic to our traditional politics:

> *Middle-class individualism has tried the novel and precarious experiment of hanging a large society together primarily by dollars. This formula evoked prodigies of energy in an era when men moved out more or less single-handed over an empty continent. No need was felt to view this thin, spreading web of national life as in any important sense a collective enterprise. . . . Liberal democracy never envisaged, was not equipped for, the stating of positive collective purposes. . . . We had only to throw the reins on the nag's back and let him move ahead. . . .*
>
> *[Today] we are a collective society in our functional interdependence, and national and personal welfare depend upon increasingly coordinated action to predefined collective ends. But our institutions and associated traditions, stemming from the middle-class breakaway from centralized controls, have deterred us from attempting to state, let alone implement, the potentials and conditions of the positive use of democratic power for democratic ends. As a result, we still plunge along on the theory of "each for himself and God*

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*for all of us, as the elephant said as he danced among the chickens."**

Mr. Lynd described his elephants as luxuriating "in the green pastures of power left vacant by democracy." The result, he wrote, was evolution of a "racket" society:

> *The cumulating "racket" quality of private power in American life defeats all efforts to strengthen the democratic process. Not only are private interests increasingly manipulating public opinion and diverting attention from democratically important issues . . . but . . . all of us are being turned psychologically against such rationalizing steps as national economic planning by the contagious preoccupation with "getting a break," cutting in on a racket of our own. . . .**

There are those who argue that the racket society must remain invincible until man, as an individual, has a change of heart through religion. Yet we are today living in an age of what passes for religious revival; there are more churches, more congregants, more pastors pleading for the moral life than ever before. The result is a Billie Sol Estes, pillar of his own church. Perhaps religion demands an austerity of spirit that does not comport with an age of abundance.

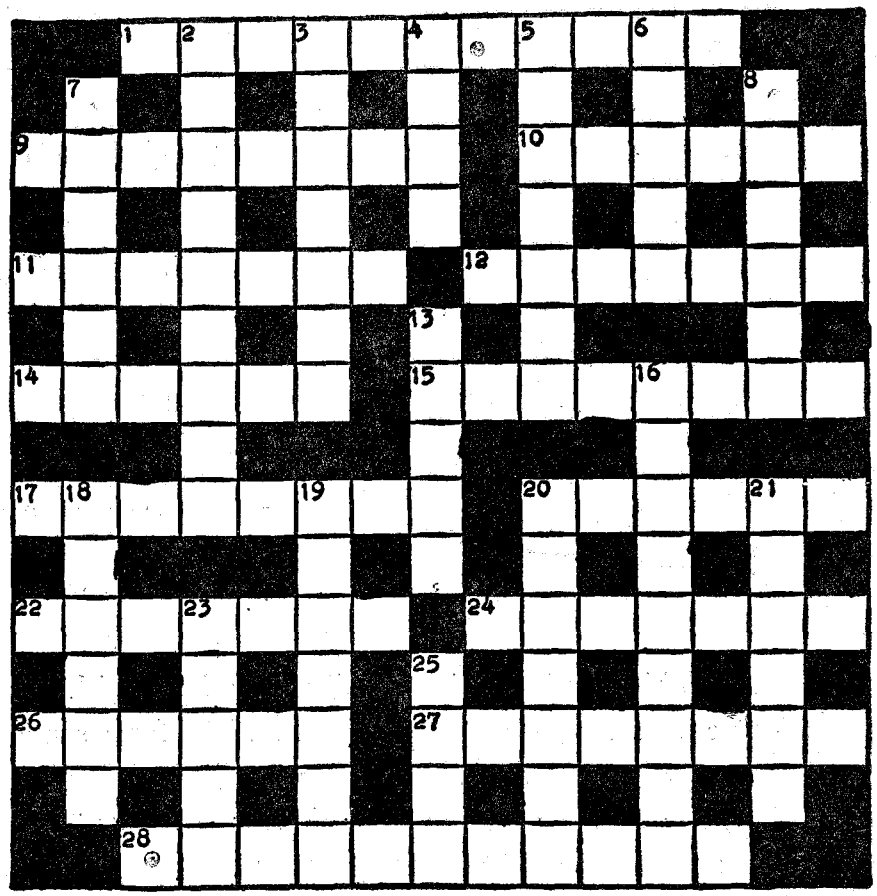
But if we must look elsewhere for a solution, where do we look? There is nothing inherently evil in abundance, and there is much that is potentially good. But if this potential is to be realized, we must learn to cope with the consequences of the scientific-technological revolution. Specifically, we must learn how to operate an economy of abundance with maximum social and economic efficiency. This involves not the misuse of our traditional ethic, or its rejection, but its adaptation to a new set of conditions.

The Rev. Raymond C. Baumhart, S.J., in the *Harvard Business Review*, recalled that Polybius, the Greek historian, once summarized a nation's decline in a single sentence: "At Carthage, nothing which results in profit is regarded as disgraceful." We are approaching the ethics of a Carthage. We have forgotten that the ultimate purpose of a social order is fulfillment of the individual. It is to this end that the scientific-technological revolution must be bent; and it is in this goal that the traditional American ethic can find its truest expression.

**The Nation*, Aug. 25, 1951.

Crossword Puzzle No. 1013

By FRANK W. LEWIS



ACROSS:

1 Puckish head-shake? Walker's description might cause it. (11)
9 Will flowers be the answer to a call for order? (6, 2)
10 Sort of feet people put in their mouths? (6)
11 The party possessed a pure one, evidently. (7)
12 See 2 down
14 Stick on a commercial at this spot. (6)
15 An impression, perhaps, of a desert? (3, 5)
17 Got clean all over? (6, 2)
20 Path so winding as to cause a caustic answer. (6)
22 Young motormen, with great capacities? (7)
24 Not quite for government agents—navy types, rather. (7)
26 A coif's not likely to be a great success when so fashioned. (6)
27 See 2 down
28 Inquire within how to make a wager on the social affairs thrown by those associated with the court. (11)

DOWN:

2, 12 and 27 Ebb, as being equivalent to the briefest form, though responsible for quite a flowing output. (9, 7, 8)
3 Prevailing rate, it might be, but one doesn't give thanks when one doesn't get to win. (7)
4 and 25 Literary flower to help in the collection of letters. (8)
5 True, say, for the lower part of the mouth? (7)
6 Disproves the statement that nothing could be finer, as you may gather. (5)
7 A poor choice for a hero, though his spirit was blithe. (6)
8 Not up to recent production of the scientist. (6)
13 Proving a small department is most proficient. (5)
16 Designed as a long coat, but fitting a regular figure. (9)
18 Is a public transport a case of extremely poor coordination? (6)
19 Suggests a rather boring Ph.D. exhibiting a place to check carefully on one's craft. (3, 4)
20 Come up with a list to fabric in the arbor. (7)
21 Writer who could have been important to Wilde. (6)
23 Wandering Arab's place in Iraq? (5)
25 See 4 down

SOLUTION TO PUZZLE NO. 1012

ACROSS: 1 Drawing boards; 10 Unfit; 11 Railroads; 12 Regarding; 13 Where; 14 Consolidates; 19 Disconsolate; 22 Adult; 24 Primitive; 25 Contralto; 26 Elect; 27 Decomposition. DOWN: 2 Refuge; 3 Water polo; 4 Narcissus; 5 Being; 6 Arrow; 7 Dialects; 8 Curry; 9 Asperse; 15 Lollipops; 16 Detriment; 17 Advance; 18 Issuance; 20 Pinero; 21 Jetty; 23 Torso; 24 Polyp.

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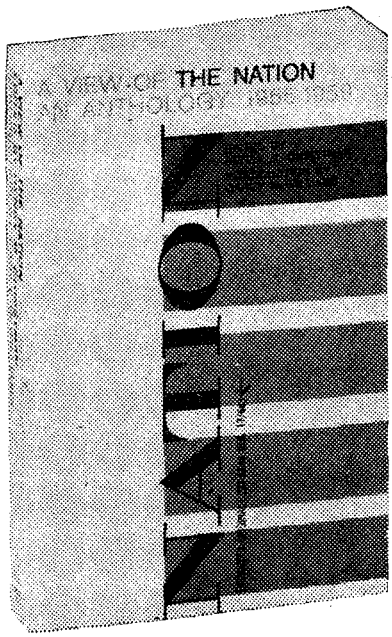

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